MARCH 11, 2016 FINANCIAL PLANNING FOR CSRS/FERS EMPLOYEES

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>> So you know how much we have to pack into these classes. I will love to take your questions as you're thinking of them. Go ahead and type them into the chat or send by email and we've got somebody in the studio who is curating a little and getting them to me. Let's remember this is a class about personal financial planning, but I don't know you personally well enough to give you personal advice. What works best is if you ask me the general questions, how does this work, and certainly as we go through today, what I'm trying to do is get you to think like a financial planner. So I'm going to tell you exactly how I would figure it out. I'm just not figuring it out for you personally, because I don't know you well enough to do that. But just to show you how this works, we had holdover questions from Joanne yesterday. Can you withdraw funds solely from the raw portion of your TSP the you need that money from a house down payment, post-retirement and you don't want to pay tax on such a large lump sum.

I love the way you're thinking. We all want to put off taxes until later, and the raw money should come out tax free, but the answer is no. You can't just pick and choose how you want to take money when you're taking money from Thrift. They're going to take it prorated from both your traditional and from your Roth side and they'll take it prorated through all the different investments you have. Now, somebody could move -- transfer all that money to an IRA and then it would be available, but let's not forget, what is the advantage of putting it in Roth anyway? Tax free growth. And since the Roth option has only been around a few years, I know if you're retiring any time soon, you didn't get it long enough for giving up a tax deduction. You didn't let it grow tax free enough for the Roth venture to be any benefit to you at all.

So let's think about it this way. Roth money coming out of Thrift, not available exactly when you want it. You have to take it prorated. And Roth money is really the last money we want to touch, because we've already paid the tax on it and for it to really pay off, we've got to leave that money alone so the earnings grow in that tax-free advantage.

Pam had a question. Subject to the withdrawal penalty if you receive disability retirement before age 55?

Actually, I'm assuming what you mean from your Thrift, and the answer is no, but if you meant from an IRA, the answer would be no also. If I'm disabled even in my 20sI can take money penalty free out of IRAsand most qualified accounts. Thrift is a qualified retirement account. I'm just trying to clean up from yesterday. Gary asked a question, can you withdraw monthly payments from different portions of Thrift account, use your Roth portion before you start, traditional portion, that's a variation. And the answer is, I like the way you think, but, no, sadly we can't do that. I just wanted to make sure that those didn't get lost along the way.

What we're going to do now is kind of walk you through a lot of financial planning topics, and when we do that, we're going to cover all the things that you need to know in a general way about making smart decisions. I'm going to talk about getting yourself organized with goals and you'll learn how to assess your retirement readiness. We definitely need to talk about the appropriate use of debt in retirement. That's a big huge thing. We'll talk up and down -- every once in a while there will be time to talk up and down the family tree. What a waste of time to get you all ready for retirement and then we forget aging parents or kids failing to launch. I may tell you to move and no forwarding address. There's lots of things to talk about with housing considerations and I want to spend time as much as you need on the allocation of Thrift and whether you leave your Thrift alone or move it to an IRA and then we'll see how we're doing with our day. Estate planning and insurance planning are cornerstone pieces of your personal financial plans.

So we know that that's a lot to cover, but I also know you've got the workbook, so let's use our time together to really get to what is on your mind as I open up the topic, if I didn't delve down deeply for you to get what you need out of it. If I have a tendency to ratting things off or talk quickly, don't feel you need to write it down. It's in the workbook you can access online. When I tell people they need to plan, a lot of times I get pushback here because people really think, you know, how can I plan where everything is so uncertain? There's just so many variables here. But the idea is we all need to plan. And as a planner -- this is what I do for a living -- I've learned that the best thing is to build in flexibility. I've got a quick little slide on this. We know that the question is, you afford to retire, but the -- we're not sure is the official answer because of all the unknowns, and because it's for so long. People used to retire and die. Baby boomers changed everything, didn't they? So what we do since we can't predict the future, we just build in some flexibility. And by that I mean simple little techniques like, I know that I'm living in a house that I really enjoy and a great neighborhood, and I don't really want to move, but at some point really it's way too much house, it's very unlikely that this is the house I'm going to live in for the rest of my life. But if I use that notion that I, of course, would probably love to downsize just for the ease and convenience of it at some point but I don't count the money that I put in my home, I've built in some flexibility into my retirement plan.

So I'm going to make -- try to afford this house for like forever and then any time I move, it just makes my retirement a little bit easier.

Another way of thinking about that is I'm going to worry a little bit about the people who have to downsize and cut back so their retirement works, because retirement for a lot of us is a long time and we didn't build any flexibility.

I see somebody else, Barbara, had a question old 401(k) from a previous career, is it a good idea to pool with my Thrift account? Maybe. Think about this, Barbara, I'll set it up and you'll listen differently when we go through the pros and cons. The advantage of the Thrift is two-fold. One, it's easy to understand. I'm going to go through it in 20 minutes. You're all going to be Thrift experts. If you don't have the confidence to know what you're doing, stay tuned, we're taking that off the list of things to do today. It's not hard to understand. The real benefit of it is it's really cheap. It's the most cost effective investing probably in the world, certainly in the United States because it's the largest account. So that's nice. The other thing is it makes your life easier to have fewer accounts, doesn't it? So if you have an old 401(k) plan and traditional 401(k) plan, transfer it into Thrift, less work for you and easier to manage, right? The disadvantage of course is -- we'll go through all these -- when you want to withdraw money from Thrift, it's not particularly flexible. So trying to withdraw money, you can't take it out of cash. You have to take it prorated. You can't just say, I'm buying a car tomorrow, wire me some money. I guess you can say it. They just won't do it. You understand the problem. So listen carefully as I go through it. We're going to set up Thrift as a middle topic for the afternoon. And then we can -- I think you'll have your answer. James is asking if on the death of a Thrift owner, can Thrift funds go in a trust or must all the inherited IRA paperwork? I'll talk about estate planning. You want to talk to a lawyer about whether it makes sense or not to have that as an option and you want the trust properly drafted. If I leave an IRA, a thrift plan by beneficiary to my husband, he's a person and he can now take it out based on his life expectancy. But if a trust is not a person, what does that mean? It all has to come out and be taxed? There's ways to draft these, but I'm not a lawyer. And I don't want you to take legal or specific personal advice from me. You want the talk to your lawyer about what is the right way to do the beneficiary designations if I need or want this money to be going into a trust. I'll give you the pros and cons and tell you how to do it. It's another way of saying, I'm not going to be a fan of the one size fits all founded on the Internet fill in the blank kind of planning here, because it's exactly that nuance that never seems to get answered when you're doing those accounts.

So let's go on and talk a little more about these goals here. I want to make sure that we get organized as we do these questions here. Your job, you're the planner in the family -- I don't know if I told you that -- but you're the planner. I'm just the hired help for the afternoon. What you want to have is good data. When I meet people who have made some financial planning mistakes it's often because they're using old incomplete or downright faulty data about themselves. Or they're making a decision without recognizing how it ripples through everything. So I'm expecting you to know at your fingertips what your financial goals are, what your balance sheet looks like and how to analyze your cash flow. Now, these goals are -- don't get tar rid away with this. This is not something that is awfully creative or in the least bit difficult to put together. Financial goals are simply the things that we need or want to spend money on that fall beyond the monthly routine. Monthly routine is routine. You don't have to write the same stuff down. But I'm asking you think about the big ticket items, how is the car feeling, the irregular expenses. Anybody besides me keeping their home on the deferred maintenance plan, right? Those kinds of things. But we know we have to do it, but I want you to think carefully, be thoughtful about this, about your wish list. What do you really want to accomplish? What is on your list of things to do? What would make you happy, right? I sure wish I could retire a certain day and not worry about money. Sure wish I could do fun travel. Sure wish I could get the kids off my payroll. I don't know your goals, but I don't have to know your goals. You do for the purpose of protecting them. And then what we're going to do with these goals, what planners do with these goals is we start to see whether or not we're behaving like people who are actually trying to achieve these goals or wishing and hoping it works out. If my number-one goal is retire comfortably, am I behaving like somebody who is trying to accomplish that? Do I have a sense of how long I have to make my money last? Am I realistic about how expensive I am? I hear it day in and day out, I can live on my pension. Right now I get that. I'm being a little more expensive, but I can tighten my belt. And then when I look at the numbers and I say, I don't know, you know, maybe you lived on less when you

first came in the workforce, but everything got more expensive as we've gone along.
I'm going to tell you my number-one goal, not because it should be yours, but because I want you to see how to think this through. My number-one goal that I actually have to protect at the expense of some other goals, you know how this works, right? I don't want to get caught up in day to day stuff and ignore longer term. I would like to think that by mid 60swork is optional. I'm not in a hurry retire, like what I do and feel I'm on top of my game but I'm healthy as I'm ever going to be and something like chronic laryngitis takes money out of my paycheck. I've been paid by a client this morning. I've had one meeting after another all week long, it's great. But how much of this money would I make without my voice? Not so much. And yet I also know that losing my voice doesn't exactly shorten my life expectancy. So if you are my financial planner and you had heard that I really want to think that I can -- in my mid 60sI'm just working because I'm getting a kick out of it and I'm already coming up on 62, this is a goal that is right here, right? And so you would want to know a couple of things. One, how long am I going to live? Hmm... rest of my life, I suppose, right?
That doesn't really help. But I can look, there's a lot of data out there that gives us life expectancy, healthy, early 60, men or women in the United States, and my average life expectancy is actually 92. Then you layer in things like, I've got good diet, exercise fairly routinely, disciplined approach to red wine, that takes me on average 98. I know these are averages and I know I could get a scary diagnosis just like anybody else, but if you were my planner and I'm a reasonably healthy person in my 60s, you would be needing to tell me, you know what, Karen, if you stop working today you could be out of the workforce longer than you were in it. That's an audacious goal. There is no pension plan designed for that. This is not all bad news. Don't worry, we're going to see most federal government employees off to very nice happy, happy long retirements, but we got to work on that and make that happen. So the next thing you would be doing is trying to figure out then how expensive am I? I know that I can live on less. But what we talk about is what if, really let's put numbers on it. Anybody who thinks they're retiring in the next two years should really take the time as they're putting together their 2015 tax return, really take the time to see how much did you spend last year? What came in? What went out? How much got saved, how much went to taxes, right? And then ask yourself, was it a pretty comfortable year in? We all remember what 2015 felt like. You were living paycheck to paycheck or weren't. You were eating having to make tough choices about fairly standard things or you were living you know, pretty large. If you wanted it, you did it. If you saw something you liked, you wanted to spoil the kids, whatever, and you landed on your feet, a good year. I want to think about what I can do in retirement to how I've actually been spending my money in a year that I remember. This is how it felt, all right?
And then, of course, if you were my financial planner and you knew I might live a long time and I have been making money and spending money, you would want to know how much I'm putting into Thrift. We'll hit this again, but the only real good answer for someone who wants to retire for decades is the maximum allowed. So I want to make sure that you understand the importance of the use it or lose it Thrift ties right back to this goal. There was a question before this one that I was reading. I think I've answered Barbara's question about the 401(k) plan, but there was -- 401(k) plan but there was one about deceased parents' debt. There it is, Celia's question. Speaking of

aging parents, I said it was important once we get your plan down to look up and down the family tree a little bit. Is it true some states require parents to pay for their deceased parents debts? That's not exactly the way I would phrase it. I think some states are exploring the need to have children responsible if the parents have spent down and are Medicaid dependent. If the State has been paying for the parents' care, would the child who inherited the wealth, maybe a little early, be responsible for that? I haven't seen it happen in any state and it would be kind of difficult for, you know, if my parents ran up credit cards and died happy after huge spending, there's no state that I know of that makes me go pay off their credit card, but it has been the law, just not particularly enforced, that if my parents is going to be dependent on Medicaid, particularly for their nursing home care, they have to qualify by having no money. And if they give me the money, five years before they apply, that money is supposed to be no big deal, off the equation, right? And now they're looking at ways to say, well, maybe it shouldn't be a five-year lookback. Maybe it should be longer. Or maybe we should be more aggressive about attaching the house or putting the -- the state is saying, maybe we should be more aggressive about putting liens on things if we're going to then pay for the nursing home care of people who under a different scenario had the money to pay for it.

So good to think through. And if you are concerned about parents or how they are going to pay or are we doing the right thing, there's a lot of really bad anecdotal information out there. People assume a lot of things about nursing homes and we got to give the money away, and you really want to talk to a good financial planner who specializes in that or an elder care attorney before you decide mom is going to give me the house or, you know, my sister and I are going to get all the assets in our name and then we'll just take care of mom. There's bad tax consequences and what if your sister went through a messy divorce and there goes half the money off that way and now we really can't take care of mom. So let's get to the bottom of it by asking the expert the specific question we personally need to know before we change behaviors and take a direction.

So the other thing I wanted to say about getting organized here is that we look for some trends, a slide on this. When looking at these trends, you remember -- I don't know if you can retire, because I don't know how long you're going to live or whether you're going to be comfortable in retirement, but these are the things, the planner I'm looking for, what's the trend with your debt? Do you owe less money today than you ever did in your whole life? That's a good thing if you're going into retirement. Some of you are mid career or not that close to retirement, but the idea would be if you have to take on some debt to get started, to buy your first house, buy your first car and maybe get some education, then from that moment on, we should see less and less debt. I mean, opposite is true on the asset side. Right?

Are you worth more, do you have more money today than you ever did regardless of what the market is doing recently? We should see an upward trend still. Cash flow basis, is it easier? A lot of people had to start paycheck to paycheck. You can't be a paycheck to paycheck existence if we're going to go comfortably into retirement. And then that last little thing, my husband and I worked together and he brings this up with clients all the time, do you live within your means? And the test for a government employee would be... so when we had the furlough or the sequestration and there were no paychecks for a little while, eventually everybody was made whole, sort of an embarrassing outcome of what doesn't happen in a timely fashion, I know, on Capitol Hill, but we heard it coming. We heard the rumblings of that and if you're going to be a successful retiree, you got through it. You were annoyed and frustrated with legislators, but you got through it. Somebody who really suffered from not getting a paycheck for one or two pay periods really -- you know, bad things happened and they weren't paying bills or they had to take out crazy loans or put a ton of stuff on credit cards that they couldn't pay off, that's somebody who hasn't acquired the skill set of living within their means. So all of those trends need to be in place if you're going to be successfully retired. Liabilities go down, assets go up, cash flow gets a little more flush, a little bit easier, happier choices, and we proved to ourselves that when life throws us a little bit of a curve ball, we just learn to live within our means. When kids went off to college, did you tuck it in a little bit and get through it? Or did you end up with so much debt that the financial planner is going to say, I'm not sure if you can retire. Just way too much debt here.

So we know then the other part of the let's get organized is your balance sheet. On a balance sheet, what we're looking at is a quick little snapshot of what you own and what you owe, right? It doesn't have to be complicated, but when I'm looking at somebody's balance sheet, there's a certain amount of information that I'm expecting them to know, and if you really want to get the most out of this analysis of getting organized, these are the things that we look at. On the asset side of a balance sheet we want to know what you own. That's not supposed to be a trick question, but I got to tell you, I meet so many people who forget about an asset until we talk about it. Oh, yeah, those savings bonds, I guess they're worth something, right? What do you own? Most have cash or checking accounts, maybe a money market fund, CD, the operating accounts. You've all got a Thrift plan, but that's not enough. Off the top you should know what funds you're using inside the Thrift plan, whether you went Roth or traditional, and whether you went with one of those L funds. Many have significant others. What do they have? Do they have a 401(k) plan 403(b) plan or IRA, and how is it invested? You might make different decisions about your own Thrift plan and how to invest it based on how they have their set-up. Your Thrift plan is great but doesn't have many investment choices. How about we get more diversification by using these other accounts so they complement one another instead of replicating one another? And then some of the other assets outside of retirement accounts, you might have stocks and bonds or mutual funds or investment property or some kind of collectible. What is it? Just make the list. You're also supposed to know, what is it worth? I don't need you to be getting real estate appraised every single year and certainly don't need you to watch the markets constantly and updating so we've got it down to the exact number, but I find that people get this number wrong so often that it's actually causing them to make bad decisions. Part of the problem with our stocks in particular is that bad news seems to be news worthy but good news doesn't make the cut. So people hear when the market is bad. They don't hear when the market is good. So it causes them to maybe jump out of the market or not put as much money into the stock market as they should. People who look at it kind of get it. Yeah, it goes up and down. -- But it goes up way more than it goes down. Maybe it's not as painful as it sounds when it's the lead story. With real estate we seem to play a completely different game. We're human beings and play games with our emotions and it doesn't always get us to the right decision, but with real estate a lot of people will just say, you know, I'm going to wait until the value comes back. The value is what somebody will pay you for it. That's the number I want in your head. Not what it was before market drop or not what you paid for it before something else happened. So if you don't know the value of your real estate, this is how you find out. You ask the real estate agent -- they'll do it for free -- the person who knows your neighborhood, if I was a new customer of yours today, what is the right price for this? I'm pricing to sell. If I was a new client today, how much should I put this on the market for to price it to sell? And they'll tell you. And they'll tell you where they came up with that number. So the idea here is what -- on your balance sheet, what do you own, what is it worth?

I also need to know how it is titled. This is sort of what I was referring to when I had that question about am I going to be responsible for my mother's death?

Is this in your name? Is it joint with somebody? Is it titled to a revocable living trust or joint with somebody other than a spouse? If my mother and I own her house as joint tenants with right of survivorship, for Medicaid qualifications, it's like she owns the whole thing still, so it didn't help with that, and for day-to-day management I can't do a thing without my mom's signature, joint owner on a piece of real estate both have to sign off on selling it, refinancing it, taking reverse mortgage on it, right? So there's no real advantage until mom dies, if mom dies before me. Then I own the whole house, without any probate. But what if I have siblings? Oh, well... right? All that may not be what mom wanted. So it didn't give us an advantage during the lifetime, it may or may not give right of distribution at death. But even if I diplomat need to split the value of this house with my siblings to keep peace in the family or just to do what I know mom really wanted, it's a bad tax idea. If my name is on my mom's house at her death and I want to sell it because I don't need that particular house or I want to split the proceeds with my siblings, I'm going to end up paying capital gain based on my mom's basis. What did she pay for it? If my name wasn't on the house, what would happen? I would sell the house and the basis would be whatever it was worth when I inherited it. In other words, when you inherit property, in most cases the capital gain is going to get erased. There's no capital gain. But when somebody gives you property, well while they're alive, even half the property, by adding your name without taking their name off, the capital gain is in the calculation and we're stuck with that. So we might have a gift tax if we then try to give proceeds to other family members. It probably -- it's probably more complicated than anybody realized to add names to accounts, other than checking and savings accounts between non-spouses. So let's be a little careful about that.

I also want you to know who is the beneficiary if any. Some of your assets had beneficiary designations, right? You've got your Thrift plan, your IRAs, former employer 401(k). Even if your estate planning document says I leave everything in this fashion to these people, if the beneficiary designation doesn't say the same thing, it's the beneficiary designation that wins on that, so people at OPM have the best stories on this that will scare you into finding those beneficiary designations right away, former spouses being named, old girlfriends being named, parents being named, parents who are deceased and now it goes, you know, down the wrong side of a family tree to a step mom who you never liked and now it's going to her kids. I mean, really, who is the beneficiary?

Find the form. And then finally what is the asset for? And that's what we're going to need when we finally talk about I vesting. Lawrence is asking a quick question here. If we retire before 59 and a half with our MRA, are distributions from Thrift taken out of the traditional side or both evenly? Both between traditional and Roth evenly? Both evenly, Lauren. It's the reason why anybody doing Roth Thrift needs to understand how to transfer to an IRA or it didn't stay there long enough to be worth giving up the taxes on it. I'll come back to that when we talk through it.
So on the debt side of your balance sheet you're supposed to know a lot of information too. So what is the debt? Is it a car loan, loan against your Thrift plan, what is it? What is the outstanding balance? What is the interest rate? How and when does that interest rate vary, if it does? What is the monthly payment and whose debt is this really? I'm trying to get at did you co-sign with the kids for student loans or help somebody with first car? I'm not saying those are always mistakes, but it's not always top of mind and you really got to think about that. What if I'm going into retirement and my daughter had been making all the payments on the car loan and then she gets bumped out of a job because she's low person on the totem pole? Right? I want it to be more top of mind.
We also know that it's your job to analyze the cash flow. If I were to say what percentage of your money goes to taxes, what percentage of your money do you save every year, how much of your expenses on a month to month basis are kind of fixed expenses, you got no choice, it is what it is, and how many of your expenses do you have a little discretion over? You should know that, right? I know we can all figure it out, but many of us haven't taken the time to figure it out in a long time. And our data might be a little fuzzy here. You probably need a spreadsheet to figure it out. It's kind of embarrassing, like we can't remember anybody's phone number anymore because it's in the phone, most can't add and subtract anymore either. I'm not proud of that, but the good news is we have tools for that. Just an Excel spreadsheet will work, but if you don't like to put together spreadsheets.
There great tools online. The slide ahead had two examples. They're not the only two. They're just was I thought you may have heard of. Quicken.com, they are the ones who came out with the first bookkeeping software that you used to pay 29.99 for and now it's free. If you go to quicken.com, they'll have sample fill in the blank spreadsheets for you, where you can put in your income and expenses and then we can model it a little bit.
Or my younger clients are pretty happy with the other one, that mint.com. That's a service that you subscribe to, you sign up for and kind of give it permission every time you're swiping a card to take that data and put it into a spreadsheet where they analyze it so that you can be walking down the street and your phone buzzes and it's mint telling you that you've already reached your limit for entertainment this month if you told them to alert you when you spend more than this much on a particular expense. For a lot of people it's just easy and intuitive as possible, but the people I know who are using it to its maximum potential and really getting a lot out of it are a little bit on the younger side of the baby boomer list. The older baby boomers don't want that information floating around and they would prefer to populate their own spreadsheet, you know, I'll look at my own credit card statement and once a year I'll reconstruct a spreadsheet.
I find that if you're really going to get the best out of this, you should look at the data from a full year but analyze it to an average month. So I've got a slide that just kind of gives you a once over lightly here. This is obviously not going to be detailed enough to

be useful, but I need all of 2015's data, so I need my last tax -- I need my last paystub and credit card statements and bank statements and I also need to be firing up the Turbo Tax or have my tax data around, an estimate on it before I can do this, and I look at -- I ask the spreadsheet then to just calculate it to an average month. So look at where the money comes from and then where it goes to. Once I have it pretty accurately, I can just move over another sell and with common sense assumptions replace salary with pension or pension plus Social Security check or Social Security supplement and come on down the expenses clearly in paying less in taxes if less money is coming in, but surprisingly, I am likely to pay the same percentage of money in taxes unless I move to a state that has radically different tax brackets. So if 20% of my income is going to federal tax preretirement, it probably is going to be about 20% post retirement. If I pay 10% to state and local taxes, then -- and I'm not moving, I should estimate 10% going -- for planning purposes here.

So I also know if I'm retired and not putting money in Thrift, my commuting cost may be going down, expenses related to my job, right? But don't forget this part, if I'm retired, I'm spending money on something that I didn't have time to spend money on when I wasn't a retired person. So don't be surprised when you retire that you've got a little more time for travel, you're got more time for hobbies and time to spoil the grand babies, and it's all more money than what you were spending when you were working full time.

The other thing that is a big consideration as we go into retirement, and it will ripple through to the cash flow, but I wanted to talk about it now before we get too far into planning your retirement is the housing considerations. It's such a big expense item that a misstep with housing can really make a difference for some of you whether you're going to be comfortable in retirement. If you are thinking about what is the ideal place for you to live, whether you're talking about staying put or, perhaps, relocating, most of us should -- who have raised families or part of a family, still have parents living, should at least give it a thought on what is the likelihood I might be taking care of an aging parent or helping a child get financially stable by having them live with me? I'm finding intergenerational living is a real money saver. But it works best if the house is designed for that. My mother lived with us for six and a half years in the early stages of her dementia, and my mother-in-law lived with us for, I don't know, three or four years. She was going to retire at 62 and take a Social Security check and we instead said, why don't you come move from Michigan to Washington, D.C. and live with us can be part of your grandchildren's lives for a little while, work a little at the office and please don't take your Social Security check, you're too young.

In both cases it saved the family a lot of money, but in both cases it was a lot easier to live with your mother or mother-in-law if the house was designed for that, if we could all have our little privacy to watch what we needed to in the evenings or decompress a little bit. It was a good idea in the family to have the kids come home at some point after education, daughter number one moved back home and as long as you behave like an adult I won't charge you rent, as long as you behave like an adult and work full time and she saved money at an entry level job. Why do I mention that? Because my retirement is now considerably more secure because I'm not worried about a 24-year-old with $50,000 and on her way to more professional income, right? So each of the kids has been able to become financially stable by just coming through the household for a short time, make sure they don't have debt, make sure that they -- they're not spending all their money on rent and transportation and not being able to save. So it just is going to be easier, if you think about what is the likelihood you might be supporting somebody or what is the likelihood somebody is going to be fragile, is this really going to be the right house for you, that intergenerational living?

We also know if you're going to stay in a house, the house you're in currently or kind of looking around for places, that if -- as we age, many of us are going to have some mobility issues so you want to really think about, is this going to be a home that can meet your needs if you have a little bit of mobility problem you need a walker or scooter, or your vision is compromised, you know, no throw rug, grab bars, microwave below the counter top, all of these ideas come from something called universal design and if you just Google that, you can actually give your house a little test to see whether -- what kind of accommodations you might need to make to this house so that it accommodates you as you start to have some issues. It adds value to the house and might be able to keep you there, but you also want to make sure that the house isn't so isolated socially or from entertainment, healthcare, those sorts of things. We might not think about jumping in a car right now and going where we need to be, as we age that becomes a little less practical. So we're going to give the house some tests on that before we decide. I get this question a lot too. If I'm thinking about relocating, should I be renting or buying? I'm already in a home right now, but if this is -- obviously I was just here because of the job and I'm thinking about retiring, should I be an owner or should I be a renter? And I know a lot of people would prefer to be renters. You know -- we all know somebody who got really burned when the real estate bubble burst in 2008 and we went into that horrible recession, there were a lot of people who had homes under water for a long time and it was a miserable experience and financially pretty devastating. So a lot of people just want to rent. But the problem with that is that when you're the renter, you're at the mercy of the landlord. Even if you're a great tenant, keep the place up beautifully and you've got a wonderful relationship with the landlord, at some point that landlord is going to make an investment decision about selling the property. And if you're the renter, you may only get 30 days' notice. Technically it's a matter of state and local law. So I would just -- I'm not sure that's the standard of living I want you to be in when you're going into retirement. I prefer that you're the owner. Think about this, you're the renter, two little rooms, you would like one big room. You can't knock down the wall without talking to the landlord. A lot of us couldn't pick the color for the wall if we were the renters. I've got clients who have been clients forever in late 80s and they have a rental property. And updating their balance sheet, I asked them how it was to rent this property and they've rented to the same people for 23 years. I was amazed by that. Why didn't they ever buy it? They didn't have enough money for the down payment. If they ever did move out because they bought something more affordable for them would it be easy to rent? And my clients were so sure -- their tenants would never move because this property has 20 acres and over the course of all of these years, they had the -- the tenants had made 18 of these 20 acres into orchard and garden. That is some kind of sweat equity. So my clients are thinking, yeah, we're good, we're never going to have to find tenants. No worries, what else are you going to talk about? But I know they're going to move, because my clients in their late 80saren't going to live forever. And when they die, we're going to have to sell the property and split the proceeds with the four kids or heaven forbid they get sick. This is what money is for. If my clients both need care, I could sell that property, use that money to give them in their home round the clock standard -- you know, gold standard kind of care for the rest of their lives. And in both cases I really only have to give the tenants 30 days. They've been there 23 years and I'm going to give them 30 days to pack it up, got this thing on the market.

So I love the idea of you perhaps renting a little bit to really know that's where you want to live. Owning for the bulk of your retirement, and then perhaps renting at the other end. We'll talk a little about these retirement communities. I do also think that over a long period of time real estate has a tendency to appreciate faster than inflation. You can make a little money on it. But my number-one argument for encouraging people to be owners, not renters is this whole argument about standard of living.

If you are relocating to a place you've never lived, that's when I like you to be sure you rent for a little while. It's hard to know one neighborhood from the next, and to really see whether this is just a place you loved because it was vacation, but maybe it's not where you want to live year round. Once you've really decided that you've rented off season a little bit, that it's perfect for you, that's when I say, okay, what is it going to take to buy this?

At the other end of retirement, most of my clients get encouraged if they don't have tons of money and can't afford live-in help, we look at these continuing care retirement communities. It's kind of an umbrella term. There's different kinds. Some are subsidized heavily by religious communities or not for profits. Some are urban areas on top of Metro stations and others out in the country, idyllic, even has their own golf cart kind of places, and lots and lots of choices and variations on the amenities and the financing. But I want to tell you that my clients who have moved into these places, to a person, which they had actually moved sooner. We all know it's tough to face that I really need to be in a retirement community or I can't take care of the house anymore or I'm just so isolated now that my friends have literally moved on. It's kind of a sad time of life for a lot of people. What they're not realizing what these communities do have, in fact, in common is a continuum of care. So you move in when you're healthy, can take advantage of all the amenities and then as you need a little more care there's an assisted living or semi-assisted and all the way through the levels of care up to skilled care.

Really something that you want -- you really should look into before you need I, right? So that you can see what the pros and cons are, see what the options are in your communities. I often find, too, that even though some of these places sound outrageously expensive, many of them are not, and especially when I compare from going to living in my own home and pay for heat and cooled rooms I'm not visiting anymore and having to buy my own groceries and pay somebody to clean and get me back and forth because I can't drive myself anymore, all of that is in this fee. The meals and the transportation and all. It can actually -- I've seen it many times, save clients' money, especially if they move into independent living.

So the idea, again, I'll just put the plug in here for the intergenerational planning. You know, who needs to know? When do they need to know it? If you're making a plan and you know that you want to live in this house no matter what or you know that you want to spend this asset before that asset, you -- what you like and what you don't like, it's

one thing to have it, but if nobody knows that's what you wanted, it may not happen. And then we follow the plan. Year to year we look at your goals balance sheet cash flow. We'll achieve some of the goals and be adding some new ones and I have you think up and down the family tree. Do you know what mom would really want?
Then the last little bit on this is, understand that planning is an ongoing process. So when updating -- this is a nice time of year to update a plan because most of the data I need you to look at is sitting in the tax pile. So just drag out your tax papers and update your goals, balance sheet, cash flow, but as the year goes on before you make big decisions let's take a little look at how it might ripple through to the balance sheet. If I really do buy this kind of car, how much will it cost and then does that mean I can't spend money on another goal or does it mean that I'll be under-funding my Thrift? I want to look at, if I do this, what happens to the goals balance sheet cash flow before I actually do it?
So any questions on any of those topics, let me see if any of them have been coming in as I've been prattling along for a while.
The goals balance sheet cash flow, just getting organized and then I wanted to go just a little deeper on some of these debt questions.
Let me keep going. On the appropriate use of debt, what we're finding is that I'm on the debt side of your balance sheet. The biggest problem that pre-retirees are facing is way too much debt. The question I'm going to pose to you, are you going to rely on debt in retirement or be able to use it to your advantage? And what we're finding is that the debt is ruining many, many retirements. So what I would like you to remember is that you can't rely on debt, right? So if you're really thinking that you can afford to retire, you're going into retirement knowing that you're going to be fine, it's because you have very little, if any, debt. But all debt is not the same. So let's talk about the credit card first. This should surprise nobody. If you're going to use a credit card, pay it in full, no late fees, no interest, collect your points, good to go, right?
I actually love my credit card. Because it's safer than cash and creates a record how I spend my money. I love getting my 2% cash back. But there are some people who have a little trouble with credit cards. I'll give you an example here. I met a couple once in their early 30smaking $400,000 a year but they were unable to refinance their $875,000 mortgage on their McMansion. This is an older example. The interest race were 6.75 and come down to 4.75. Even though they had not been late on a payment and had a good credit score, they bought this ridiculously big house and furnished it on credit cards. And the lender said, you're tapped out too much. Too high a percentage of your money is going to debt. Now, they were both working like crazy people, so, you know, they were making enough money to pay those bills but the lender thought they were too much of a risk. What if they got burned out? What if they went from the big deal lawyer income to the work for the little not for profit not make as much money lawyer income, they were too much of a risk. Over the life of this loan that inability to pay -- to refinance it to a lower interest rate was going to cost them huge money.
So I probably didn't let you look at that long enough, did I, to see what the dollar amount is.
Over $400,000. Was that one misstep of having too much credit card debt. The reason I use it as an example, I changed the names to protect the innocent. But the reason I use them is because a lot of people say, well, you know, you have to be really pretty

ignorant if you're going to misuse credit cards. It happens to a lot of people. We live in a culture where we get a credit card before we get a paycheck sometimes and it's happened to a lot of people. If you know somebody in your family tree who is having a little trouble with the credit cards, have them get organized, gather the balance, know the interest rate. Your due dates, payments, and always pay more than the minimum. If you're trying to get it cleaned up, it does make sense to pay the one with the highest interest rate first, but my experience has been that if we just clean up a couple of lowest balance ones we get a little bit more motivated. I don't like people consolidating even though I might be able to consolidate to get them to a lower interest rate, until we've proven the behavior has changed. We know how this works. Get all your credit cards paid off because I refinanced on a home equity line of credit or personal loan from the credit union and before we know it the debt is back. That doesn't make sense. So if you -- one of your kids is going through this or you know somebody, make sure that the behavior has changed before we do any kind of consolidating, and be sure to tell them they need to go to consumer credit counseling. Those organizations not for profit can negotiate no more interest, no more late fees so we can actually get out of the debt once these debts start running away from us, the interest rates are just huge.
So Barbara is asking, if you have no debt, then why buy a house and plunge into a big housing debt? Well, if you have no debt, it doesn't imply to me you would take on a big debt for a house. It implies to me that if you were going to buy a house at the end of your career, you either would put a huge down payment on it or pay cash. I agree that we shouldn't be taking on big mortgages when we go into retirement. But many people have been homeowners for a long time and the reason they have no debt is because their house is paid off. If it's not the right house for them and they want to buy a different house, they're just going to pay cash for that house or take a very modest loan. So mortgage doesn't have to be huge, and the size of the mortgage is really relative to what your income is.
What is huge to one person is not huge to another.
We know that the fastest growing demographic, the age group that has the fastest growing outstanding balance on credit cards and another reason why I bring it up when talking preretirement class, it's a senior citizen. We think it's happening for one or two reasons. It's no the kids. Kids are coming out of school with a bunch of debt. Not the baby boomers. Baby boomers have taken a while and getting stretched at both ends, but senior citizens, and we think it's happening for one of two reasons. One, the fuzzy decision making that happens as we age, and two, some of these unreimbursed medical expenses. So I'm going to ask you, if you know, if your parents or aunts and uncles have any credit card debt, and if they do, are they paying it off as quickly as possible or are they like what we're finding, letting the balance slip more and more and being charged really high interest rates?
If you've taken on any college loans or if we're talking to your kids about taking on college loans, my limit is two years. And I know it doesn't sound like much, but we've learned that these education loans are really not working out well for people. So if they have to go to community college for a couple of years or if they have to live at home and give up the go away and grow up experience of college, it is advice that I've been giving for a long time. It's just the -- and we also know that if you've signed on one of your kid's college loans we can't discharge that even in bankruptcy. If you're borrowing

money to help a child or trying to advice your child which college to go to, I don't want them to take on debt with reasonable assumptions we can't pay back two years in the workforce. And for a kid these days, depending on what their field is, that's about 20 to $25,000 for the four-year degree.

When it comes to car loans, might make sense to buy a car, but if the idea is we don't want to rely on debt, so the -- I need to make sure that I'm being prepared with cash for these predictable events. We wrote down the goals and once a year we look at them. We line them up chronologically. What am I really going to do in the next couple years? If you've got a significant other, good to have the conversation with them and then make sure you're behaving like somebody who wants to achieve that. Am I saving the money to really buy this car? It may make sense to take an auto loan if the interest rate is low and if I can get it paid back fairly quickly. And I know I can find that kind of loan these days. Credit unions, banks, savings and loans, even inter-family loans are reasonable if you have the right family members. But I also know in my lifetime car loans have been as low as zero and as high as 18%. I'm not a real fan of the 0% loan because they're only offered on brand-new cars and if they're giving me zero interest, what does that mean? It means that I'm probably getting a fee someplace else, right? One of the other many fees that they can tack on.

Sometimes people want the know if it would ever make sense to take a home equity line of credit to buy part of a car? I know we've got a lot of people, some of you are aghast at that idea, but there are pros and cons. The advantage of using home equity line of credit, tax deductible, lower interest rate and flexibility. If I had to buy a car I could write a check against the equity of my home and pay it off tomorrow and have one night of interest. If I had to buy a car unexpectedly use a home equity line of credit, pay interest only a few months and once I see what is really going on, I could arrange to pay it back as quickly as I wanted to and they can only charge me interest while the loan is actually borrowed outs. The negative of course is if I screw up this home equity line of credit I could lose my house. That makes no sense, does it? How do I know whether I should use a home equity line of credit or not? I have to impose a rule that the lender doesn't bother with. It will sound familiar but you'll hear it from me all day. If I'm going borrow money against the equity in my home I should never borrow more than I absolutely know I can pay back within two years.

So how do I know I can pay something back within two years? I either already have the money, that would be a good clue. Or I am dividing the amount I'm going to borrow by 24, 24 months and I'm going to plug that into my cash flow, that spreadsheet that I took the time to do and I'm going to see how much of this -- how much would that payment have to be to get this thing paid back in a couple of years where I would be sacrificing my contributions to Thrift? If that's the case, then I can't afford the car. So the idea here would be prepare with cash for predictable events like buying cars, like home repairs, like sending kids to college. We're going to be prepared with cash for predictable events.

To the extent we can. Because interest rates are so low right now, I might take the chance -- the time to look around and see what loans are, because if I really had enough money to go pay cash for a car and I can borrow money at 2% these days, that money that I was going to spend on the car can now be invested for growth if it earns 7.2% a year on average, it doubled in 10 years. Well, in 10 years I'm not even halfway through my retirement. Doubles again in another 10 years, I got a pretty nice pot of money for the couple of dollars of interest that I paid on that little loan for the car, for the home improvement, for the home maintenance.

So the idea here would be, let's not rely on debt if we don't have to. Let's be prepared with cash for all of these predictable things, but at the point we're making the decision to go purchase, to go achieve the goal, that is when we decide, are interest rates still attractive enough for me to take a little bit of a loan? Does the little bit of a loan give me the flexibility to do something much more valuable with my money?

Now, there's a question always that comes up, should I ever borrow against my Thrift Savings Plan? There are some serious pros and cons with that. You can do it, right? If you've ever been to the Thrift website you've seen these rules here on how much you can borrow, and it sounds like a pretty cheap loan because you're borrowing the money out and paying it back to yourself with interest, and you get the interest. And the interest you're being charged is the interest that the chief fund is paying at the time you take the loan. But, boy, you really sacrifice a lot of growth for that loan, because you don't pay it back at the C fund rates or any of the growth rates, you not only didn't earn as much money, that lost opportunity never goes away. If you do have a loan or you know somebody has a loan out from the Thrift plan, please, please remind them that that loan has to get repaid before you retire or it's considered an automatic distribution, and if there's a distribution, not only do you pay the tax on it, you'll be paying a penalty.

So this little example, just borrowing out $5,000, if you borrowed out $5,000 over a time period where your Thrift plan was earning about 8%, which even after 2008 is a reasonable assumption if you're going for growth. Your Thrift balance we're assuming you were paying yourself back maybe 3%, that's a little high, right? You would have had an additional $9,274 in there because your plan made 3% when your loan -- your loan made 3% when the plan would have been making 8%. It's the most expensive loan out there. It's hard to understand that when you haven't seen that before.

One more topic I wanted to just set up and then we'll take our break, our first break, and you can be typing in your questions. And I see a couple of them have come in. So I'm not going to ignore them, but let's get this other mortgage topic out and then we can all be thinking about a question and I'll start answering those. So the question that is always out there, should I accelerate payments and pay back my mortgage? Does it make sense to get it paid off early? With interest rates this low, we have to think about the time value of money? What else could you do with your money? I've got a 3.3%, 30-year fixed rate. If I pay it off, it saves me 2%. All my investments are earning more than 2% after tax. So I could do something better with the money. I also know that a dollar today is way more valuable than a dollar in the future. Why give them a dollar today when they'll take a dollar in 20 years that buys a fraction of what it buys today? Pay back with monopoly money, right? And of course I have some flexibility. If all the money is in my house, I may not be able to borrow it out if I need it. So the point is, if there's any chance you might want to use this money for anything in the future, it would be better to have it outside of the house, right? So funding Thrift plans, funding IRAs, doing the catch-up in IRAs, funding 529 plans for kids or grandkids, just tucking it under the mattress, more accessible than putting it in the house. Because even though it's your home equity, if interest rates go up, it may be too expensive to borrow it. So those are the negatives.

So what are the positives? I know Suzi Ormond told us to pay mortgages off. What is the pros? Simplicity, peace of mind, sense of accomplishment. Nothing wrong with that, but notice how best use of money is simply not one of the advantages, and that's because interest rates are so low. You can do just about anything else with your money and make more money than what this mortgage is costing you. I do understand that some people look at these mortgages and say, Karen, I got to pay it off because my cash flow is going to be so tight in retirement. That's very short-sighted thinking. Even if I have no mortgage payment, it's not like I'm home free. I'm paying taxes, insurance, maintenance, utilities, and all those go up faster than my cost of living allowance. I took out a mortgage in 1981 and almost lying awake at night, what have we done to ourselves, the principal insurance and taxes payment was $513 a month and I was thinking, how are we going to be able to pay that off? What have we done? We're doomed. I'm saving 25 a month for the kids college and paying all this money in home mortgage. Well, today $513 sounds pretty attractive to me, right? Over a 30-year fixed rate mortgage, that 513, most of it stays the same. So if I'm worried about the principle and interest, one of two things might be going on here. One, I might try to take too much house into retirement and I'm being short-sighted and not thinking about what it's going to cost to maintain this and heat and cool it into the future, or two I just never really thought about the time value of money.

So I have noticed it's been a mistake in all the years I've been giving advice, a lot of people are trying to take too much house in retirement, because all through their careers they've been able to put 20% down and buy the bigger house without ever building equity in the house it meant that a lot of money over the years has gone to home maintenance and home improvements, not enough has gone into building equity in a home so that after 30 years of home ownership we could actually own something. So be a little careful about the advantages of paying off the house.

And then I also will tell you that we have another slide here that just gives you an idea of -- I'd like your principal and interest and taxes and insurance to be no more than 20% of your gross monthly income. And your gross monthly income in retirement is going to be your Social Security supplement or check and your pension or just your pension if you're CSRS, right? If it's more than 20%, a lender won't mind. They know you're going to make your payments, but you'll feel house poor. And so just to give you an example, if you were working and had $4,000 a month coming in, 28% of that is an $1,120 a month payment... 20% is 800, and honestly, we might even want it to be a little lower, so that as you're retired, you're not feeling like you're house poor. The lender knows you'll make your payment, even if they lend you 28% of monthly income. So think about that. Do the arithmetic, if you're staying in the same house and this is your mortgage payment, if it's going to eat up more than 20% of guaranteed income, not spending down investments, because investments go up and down, not part-time job, I know a lot don't mind working, but what if you can't, what if you don't find work, that's a bit of a red flag when your mortgage is taking up more than that.

So I've got one more slide here. We can talk about this, but basically, because I know you need to take a bit of a break here. We know that the reverse mortgage is not a great idea. We're spending money and not having to pay it back and we have no equity in the house when we want to move into assisted living place, or you can spend it too young and you can do a reverse mortgage at 62 and I can honestly say I don't have any

good examples of when it really worked well. Sometimes it wasn't horrible, but it was -- it's usually the most expensive way to get money. If you're contemplating a reverse mortgage, we might want to sell the house and take the money and get into something that we really can't afford.
So what I'm going to d', I'm seeing 108 here and I understand we're going to take a ten-hundred break. While on the break, why don't -- ten-minute break. Get organized and I see questions in there I'll start with when we come back and then, of course, right after we clean up the debt questions, where the mischief is, we get to do the fun topic how to invest for successful retirements.
So meet you back here in ten minutes.

[break]

>> Welcome back and I see that many of you have been busy typing in questions and I want to get to those. I appreciate your questions and participating, and let me say my presentation style is a little bit different than Joanne's, she was paging you through a handout and I'm not doing that today, but as I mentioned when we got started I am going to cover a lot of topics and at your leisure you can go through the workbook and see, it will all sound pretty familiar to you, the things that we went through, but really the benefit of coming to live class, in spite of the difference distance is you can ask the question and say, did you really mean that
So I'm going to tackle a couple questions. Francis is asking, I'm 66 and eligible for full Social Security benefit, can I work full time and still receive my benefits? Under current law even though they tweaked Social Security recently, that is the way it works. For every month you're under 66, if that's your full retirement age for Social Security, there would be a little bit of a penalty if you make more than a certain amount of money you give some back, and I'm sure Joanne went through that or SSA.gov to see the formula. No penalty whatsoever, but if you really didn't need the money, what are you hearing about? Maybe I should put off my Social Security check because it gets better looking. It does until age 70 and at 70 we all take the checks. Whether somebody should take it at 66 or 70 really depends on what would you do with the money? A lot of people I advise go ahead and take the check even if you're not going to spend it, save and invest it, be generous with it, because if you don't take the check after 66, waiting for it to get enhanced, you end up having to live quite a while before it gave you any benefit whatsoever.
So hopefully that helped. Jason has a question. If I plan on retiring several years before my wife, do you have any suggestions on planning for that situation? I retire at 57 and she'll likely work into her late 60s. Any caveats? That's one of those questions, Jason, it's not a bad question at all, but it's hard -- for me to really answer the question, I would, in a valuable way I would want to know a ton of information, right? But what I can say generally, when we have a big difference in age and one is retiring before the other, she's at real risk if she gets tempted to retire sooner than she wanted to e-it's

difficult when there's an age difference or if there's an age difference -- you diagnose say that, but if you're going to retire at 57 and you're the same age, I'll approach it that way too, if we know that one person is retired and the other one really wanted to work or needed to work and they retire, I just worry about what we've given up, right? Are we both starting to spend a little bit more money than we would have if we worked? Are we starting to deplete assets too soon? 57 is a young age to retire in 2016. Being eligible to retire just means, you know -- I don't want you depleting assets too soon. A lot of people who are 80-some years old right now are a little surprised how quickly they burned through some of this money. So I guess without knowing more specifics, Jason, I can't give you more than that, but be careful about how quickly you're spending down assets and if you're the first one to retire, maybe that means that you're the one who takes care of planning all the vacations and all the fun. You'll have time for that. That might be a good idea.

The next question here, if I'm debt-free in about a year and a half before retirement, if I plan on being a snow bird, I grew up in Michigan, I know what that means, for half the year, do you have suggestions? I plan on renting the second home, but maybe I could buy it. I like the idea of you renting the second home and really putting off buying and maybe never buy. What I've noticed is that for my snow birds, everybody in Michigan is going to retire to Florida at some point, what I'm finding is that the ideal place is different over time, so some years they want the big place on the water, on the golf course, near the tennis, it's all about the entertaining and sports and recreational stuff. And then sometimes they realize, I'm getting a little burned out, I'm always entertaining and they want the smaller place, so fewer people come to visit or they get their own place. Or as we age, you know, it's not as much fun to play golf if your rotator cuff is blown out, that kind of thing. Practical considerations. I also know that a lot of my clients have enjoyed exploring different parts of Florida, sometimes they go to the southwest. Every once in a while they don't go anywhere, too much going on with the family back in Michigan or they had a little health issue. Nothing is urgent or scary, but, you know, it's nice to be close to your own doctors and recuperate, so they don't go anywhere. I think we spend less money if we only have one place and then we rent exactly what is perfect for us for the other time. Some of you are going to be able to afford two places and maybe that will make your life easy, just knowing your stuff is always there, less thinking, less "hope I get a good place" kind of mentality, but be sure when trying to do the math on this, my first advice was go ahead and rent the second place, but if you really want to buy it, you've got to know there will be probably a month or two per year when you're not in either place. Just visiting family, traveling to and from other places, attending family events, doing a little travel, right?

So it's really paying for three places for a couple of months a year, and that's why it gets to be real expensive. Regardless, even if you want to buy a place, I would rent the first couple years and just really be a smart purchaser who gets a great price and exactly what you wanted instead of get there and realize, oh, if I would have known this, I probably would have bought in the town over or made another choice.

Lori is asking, what is the best way to get an outside TSP IRA started? And I'm not sure I understand exactly that question, but there is no such thing as a TSP outside, but if you just mean an IRA, I'm going to talk about that shortly, Lori, so listen to the information that I give you as we get through the slides on investing and then come right back to me with -- if you still need something else.

I was handed a question during the break and it's from Alan, and he's asking me about newsletters, and who can you trust? Seems to be getting a lot of mail and maybe some of this should be junk mail, I don't know, of the whole list that you gave me, you had one in here that Garrett planning network, I know Garrett, known her for years and she's great. She's the only -- certified financial planner, and I know NARFI, national association of retired Feds and a few others are familiar to me, but if the overall question is whose advice can you really trust or when reading something, how do you know you're reading the right thing? You have to understand that the -- the burden is still on each of us individually to do a little bit of vetting. So if you're going to take somebody else's advice, you're going to read an article and act on it, you would really want to know what qualifies that person to give you that advice and how much they're getting paid. So if I'm not getting paid to be here today, why would I do this? Oh, you're lovely people and I get a kick out of the staff here, and it's a pretty drive and I want to see if the eagle cam has any eagle babies in there, but really I'm here because I'm paid, right? It's my job. And because of that I also can give you advice you need. I don't need to turn you into a client for this to have been a worthwhile day out of my life. So if something is free, it probably is marketing. Now, marketing in and of itself is not evil, but it still puts the burden on you, doesn't it, to ferret out, okay, should I take this a step further? Should I take this advice? Okay?

And every certified financial planner is held to a fiduciary standard. All that means is we're required to put your interest before our own. If somebody called an wanted to be a client and wanted investment advice and I notice they've got a bunch of debt or something else going on, it's my fiduciary responsibility to say, I can't give you any investment advice, you've got to pay off these debts. You would think if somebody is teaching a class for a federal government agency or has a website that caters to federal government employees and it looks official they would have been vetted by the federal government. That's not always the case. I'm happy to report that Joanne and I have been thoroughly vetted, but I give lectures at other places where the person before me was offering free seminars and doing them for free. The agency said "fine," and they were really selling very inappropriate investments, tax deferred annuities and things expensive. So before you follow advice, I think it's interesting to read stuff and gives you perspective, right? Before you act on it you want to know what qualifies that person to be writing these articles, what qualifies -- are they held to a fiduciary standard and how much does it cost. So some of these I do recognize and I've read some great articles in the NARF newsletter an I've read some really, where did they get this person? Recommending what? And it's because you didn't get paid to put the article in. It was marketing and they're trying to get somebody to do some business with them. Not everybody is evil who does marketing, but it's still -- you got to ask some good questions. And if you really want the know the right questions to ask somebody before you took specific advice from them, I would go to the CFP board's website. I might have it on a slide, but remember certified financial planner, Google that and you'll find probably the best way to find a good advisor who is held to a fiduciary standard.

All right. So I'm not seeing -- are there more questions there I need to be getting to?

Here is one. If I can rent for 50% of comparable PITI -- whoops, what just happened to the question? It will come back.
Thanks.
Wouldn't it be better to rent and put money into Thrift to compound than to build equity in a home? I'm 37.
If that's really what the story problem is, that I can rent comfortably for half of what it would cost me to buy, I'm all for it, for you renting. But I also need you to know that interest rates change, housing markets change, and every once in a while the landlord is in charge not the renter. So it sounds like wherever you are, you're kind of -- you know, they're just lucky to have a tenant, right? I remember back in the day when you couldn't even sign a one-year lease because rents were going up so fast, the landlords wouldn't give you a one-year lease and rents went up 20% three years in a row. And I'm hoping it doesn't get quite that crazy, but it just really depends on where you live to see whether or not you can make that decision. I would also suggest to you that it does -- well, clearly it makes all the sense in the world for you to live as modestly as you can and still be comfortable while maxing out on the Thrift Savings Plan, perfect, perfect, perfect, but at some point you want to own something. A lot of clients are state department and when they go overseas, housing is provided for and we always build something into the cash flow that we call it the eventually I'm going to buy a house fund. Some bought a house before they shipped out the first time. Some of them buy their first house as I'm meeting them in pre-retirement class, but we've always been planning for them to have a house for a standard of living peace of mind once they go into retirement. So at 37, cheap rent, I love it. Keep it up.
Michael is asking: Is any financial planner qualified to work with CSRS offset? Sure. Financial planners who know Joanne McGehrin, we call her up and say, hey, CSRS offset and I want to make sure these numbers are right. It depends on where you are. I know that I'm talking to people all over the country. I get that. And it may be hard for you to find somebody that you can walk into their office, but more and more we're able to do Skype, long-distance kind of conversations with people and you ought to be able to find somebody who really understands federal employee benefits without you having to spend money educating them and then still hope that it's right.
Here is a question. I didn't have a chance to ask this yesterday. Then I probably can't answer it today.
So what you want to do with that question about law enforcement and 57 years -- mandatory 57, let's save those. Joanne is going to try to answer a few questions next week for you.
I've heard -- here is one. I've heard that to hedge against potential changes in Social Security in the future you should consider filing for Social Security when eligible then suspend the benefits so you can earn DRCs. Is that a good idea?
We just know that all of the rules on file and suspend just changed. So you need to go to SSA.gov and see what -- they're changing literally as of the 1st of April. So if you can't do it now, it may or may not work. And those file and suspend strategies really seem to work the best, have the most significant benefit when we were talking about spouses, one spouse would file and suspend, the second spouse would take half of that benefit and then at age 70 both would take their own benefits that were full. That's definitely out of there. And they also, if you filed and suspended and then requested it

later, they used to pay you for the money in between those two events. And they're not doing that. So I'm finding that the scenarios where I would say, hey, I got to tell this guy or gal about file and suspend, are really changing. I don't know when you heard your strategy, but absolutely, SSA.gov, go see whether it makes any sense at all.

Is there another one up there? They're not scrolling. So let's do this. Let's talk about assets. Again, I'm going to invite you to ask questions routinely
Yeah, here is one -- we got that one too.
So let's go ahead and talk about the asset side of the balance sheet.
There's lots of rules about how to manage money and asset allocation, how much of my money should be in stocks or bonds and how much of my money should be invested for growth. Before we get too far into this you need to know something pretty fundamental about asset allocation and the rules. Somebody made them up. We didn't make up these rules in asset allocation to confuse people, but the fact of the matter is, they're all designed by studying the past and the past really gives us no guaranteed future. So what I'm going to do today, I'm going to teach you the most important thing I've ever learned about I vesting, and it really has to do with time frames. So think about the goals that we wrote down an hour or so ago or you're going to do tonight for your homework, the big ticket irregular wish list things organize them from the immediate to the next to the next to the next, and then we're going to try to link these goals to time frames so that we can know that our money is allocated correctly. I'm going to make a distinction between your short-term goals and your long-term goals.
So we know that the short-term money is -- the money that you might spend in the next five years, it needs to be out of the market and money that you're not going to spend for at least five years or beyond, that's money that we put in the market. If I can get that done, if I can understand that, that that's where I want to make my first decision on how much should I invest or how much do I need in emergency money, everything else is going to fall in place. We say five years is short term and once we get past that, I's longer term. Keep short-term money out of the market and keep your long-term money in.
So let's look at the types of assets. Out of the market assets are cash or cash equivalent, checking saves accounts, CDs, things you know about. What do these things have in common that we like? You've heard of them before. They're easy and convenient. You might hear the term "liquid." They're accounts that if you want the money you just go get it and use it. Probably what we really like about these assets, they don't drop in value. Of course, occasionally we have to bail out the entire banking system to make that a consistently true statement, but the fact of the matter is, if you started savings money for your next car and at the bank or credit union or savings and loan, neither within of us thinks you've got to jump off class today early and make them count it in front of you. It's there. But what we don't like about them is the fact of the matter is, it won't grow. It just won't grow. So the -- if I see that it's got to pay a little bit of tax on that, a little bit of interest, and all my costs are going up, over time I'm actually losing money in cash. So you won't be hurt by that if you only have your short-term money in cash. Money in, money out. Money in, money out. Right? You'll be fine with that. But the person hurt is the people keeping long-term money in cash. How much is enough? Look at your goals. People driving old cars need way more cash than people

with new model cars. It's as simple than that to think through. Rather than the rule of thumb, the closer I get to retirement, the more I should have in cash, the older I get the more I should have in cash. Three to six months' worth of fixed expenses ought to be in cash. That may be fine, but a better idea is just to look at, am I likely to spend this money in the next five years? It better be in cash. Because if it's not in cash, it's in the market. And once in the market, the values go up and down.

So let's talk about the asset-based in the market. Which means not cash, the stock market, bond market, real estate market, currency market, commodities, collectibles market. We know pension is going to be part Thrift, which we're going to invest. Part pension. And some of you part Social Security.

Well, if I'm in the market, I know the values are going up and down, and I know I'm not in charge of that. The market has not been great recently, but from the early 2009 it was fabulous. So on average it's still pretty darn good. I have to remember, it's my job, though, to manage when I'm taking that volatility risk. I don't think anybody loves volatility risk, but if we manage it, we don't take risk of our money being in an account that is simply not growing while all of my costs are.

So how do I manage the risk of the market going up and down without my permission? I don't have short-term money in market. When we had that news three or four weeks ago that the Chinese economy might be slowing and our markets tumbled for the next couple of days, I hope you didn't even think about selling. Because if you were doing your planning correctly, money in your Thrift plan, you're not going to be using any time soon and when our markets open low, it's a good time to buy, isn't it?

So the idea is to get yourself some clarity on when are you using this money and if we get it allocated mostly based on your time frames, a little nod to your temperament, then you're going to get to the right allocation.

I want to walk through the Thrift accounts and then I see a lot of questions about investments. Let's do this. How do we make the most out if our Thrift? I'll go through a couple of these. I talked to Joanne yesterday an she said she didn't get to spend a lot of time on this, but this is in her outline and my outline. If you're under the new system you know you're getting automatic 1% contribution made right into your Thrift account, right? And there's matching based on what you put in after that up to the 5%. So this is the chart on how it gets matched. Even if you're putting nothing in, you've got money in Thrift and if you put in 1% and the agency puts in 1% and they match it, 3% and by the time we're up to -- you're putting in 4% and matching 50 cents on the dollar. You put in 5% and you end up with 10% going in. So it's really very -- an amazingly easy and good way to get some money to accumulate. We know that in 2006 we can put up to $18,000 in unless we're turning 50. If you were in the reserves or had another job, the most anybody can put in is 53,000. Most of us in class today are going to be limited to the 18,000 of our money, not counting the matching, until we turn 50. My birthday is in August. If I was turning 50 -- don't I wish? -- this year, I would be able to start the catch-up provision in January. Just divide the extra money I know I can put in up to another $6,000, but maybe I don't have 6,000. Maybe I only have 1,000. I divide by the 26 pays we get this year and have them take it out starting in January. I wouldn't have to wait until August. So you don't have to ask, is the catch-up provision a good thing? Yes, it is. It's just poorly named. That's the only thing I don't like about the catch-up. It implies I miss something and I can't tell you -- I still meet people all the time putting in full

contributions, heard about this catch-up thing but because they had always fully funded Thrift, they never did it. What it should be called is smart move for smart people of a certain middle age. That's what the catch-up provision is.
And the other little just general, the reason we want to get it in there and get it in even if it pinches a little bit because once it's in there, I now get to take advantage of the compound earnings. The idea is, whatever you can put in without causing credit card debt, without causing to totally fall apart on the cash flow basis is what you should be putting in, and if you can invest more beyond Thrift then we just do the same thing and have direct deposits go into IRAsor other investment accounts. Look how money grows. It's $1,000 that just got left alone, and left alone and left alone, right?
So it's astounding for some people when they see their Thrift plans take off toward the end of their careers. Markets have to behave, but most years they do, and you see all that money that is already in there plus the little bit I'm putting in every year start to really make a pretty powerful Thrift.
I give an example of an employee who didn't get the memo on investing until age 40 but then said I'm doing 10%. $60,000 salary I had to make assumptions. If salary could increase 2.5% an annual rate of return -- by the way I'm picking this off the Thrift website. I'm not making up wildly impossible examples here.
At 65 this person would have almost $650,000. That's just pretty incredible.
What if this person started at 40 and then 50 they stopped contributing? Maybe for a few years because some kids are in college or something going on like that? Wow, didn't even make the 500,000. Cost them $150,000 when they stopped contributing.
So we want to make sure that we take advantage of it. Now, this chart shows you how different the investment choices can be. I'm not asking you to look at this chart as of the end of December 14th and say, okay, where do I invest? But just to say, to make my point that it really does make a difference which funds you're using if you're going to be happy with your Thrift plan.
If you look on the right column there, it shows five different L funds and then five different individual funds. But it makes it sound like you really have more choices than you do. The L funds use GFCS and I. I'll walk you through this to make sure you get it, but what that means is they should be called something else. They should be called portfolios, right? So let's take these one at a time. GSCF&I first because they -- not only do you need to understand them, that's what the L funds are made of. Signing up isn't enough. Fund selection is key.
Bonds are going to make sense when you try to get diversification and income. There's all kinds of bonds. Stocks, when do they make sense? Again, when you're trying to diversify and get long-term growth, keep pace with inflation or outpace it and occasionally we can get some tax advantage by not having the ordinary income tax taxed at long-term rates. So let's go through these funds. The government fund, G fund is back with full faith and credit of the U.S. Government. What you're doing is lending the government money for the privilege of using your money. They're giving you interest with absolutely no risk of loss unless of course you think the federal government is going out of business and that's just I don't know the scope of this class. So when you take no risk you get very little growth. The G fund has never kept pace with inflation and taxes over a long period of time.

So when would it make sense to use the G fund? Clearly if you're going to spend money in a short term, but also if you need a little peace of mind. So, you know, people understand that markets go up and down, but when it's your own money, sometimes it makes you a little crazy, doesn't it? So I meet people all the time who say, Karen, I like to keep a little money in G for my peace of mind. It will make me a better long-term investor, even if the markets are falling apart, I don't get whacked out about it, because I got a little money in G. I'm fine with that as long as it's a little bit. But know that every dollar you keep in G that you really don't need because you're not spending it anytime soon, is dragging down the overall performance long term. Fixed income or the F fund. It's going to make sense when objective is income. Here in this case you lend money to government and corporation. But it's a certain bond. It's index fund, so a formula of bonds and they're all very low default risk, so they have very little chance that they're going to go out of business and because of that they don't pay as much. The F fund makes sense if you needed income. You've got a paycheck for that, so that's probably not a good fit, or if you're balancing against stocks. Stocks and bonds correlated. They go up and down roughly the same times, but the difference is intensity. So even when stocks and bonds are falling at the same time, if I own both, the bonds are paying me some income and it sort of mitigates some of that crater that the stocks created. Before we get too excited, stocks go up way faster.

Before I put bonds in a portfolio, I want to know how much of a federal pension you're going to have, because when you're retired an getting a federal pension or federal pension and Social Security check you already have what I need to build into the portfolios of my non-federal government employees. Because even when markets are falling apart, federal retirees get their pension checks on time with maybe cost of living allowances. So that's a way of saying most financial planners don't use the F fund, even the L funds barely take a position in the F fund. So action, all stock funds, they're not the same. The C fund, if you're in that, you own five -- your little share of 500 of the largest companies, you know, two big to fail type, in the country. It is the most conservative investment for growth that you can make in Thrift.

It's definitely going to have more market risk than the other two we just talked about, but the first one we're talking about that has the most potential for long-term growth. When in S fund you have smaller companies. The rest of the market. In the C fund, what you really have are a lot of companies that duplicate one another, because every big bank, every big insurance company, every big energy company, auto company. You know, they're all in there and we're missing out on a lot of the other smaller manufacturing companies. So we're getting the rest of the market with the S fund. And sometimes it's good to be small because small companies they can -- when the economy recovers, they can get out there and make some money way faster than a large company that has got to fight with labor union and change out the CEO, hire consultants and get them back to the core mission. Still it's got to be a small -- it's got to be a long-term investment, though. We've heard the story of a small company that popped in and all of us -- everybody became a millionaire. But we've already heard the story of the small company that popped and never to be seen again, totally went out of business. What we like about this S fund, though, it's not all small companies. You own a few thousand different companies and some of them -- many of them -- are medium sized.

Of course, there's the I fund where you own large companies outside the U.S. and it is definitely more volatile and carries additional risk. With C and F funds I run a risk that companies fall on hard times or the economy falls on hard times. Here I have a political risk. What if politics of the country fall on to hard times or currency risk? It's definitely going to be the most aggressive of the three of them.
Stocks make sense when you need long-term growth. And if you don't know how long you're going to live, give or take a couple decades you need growth, and when you need to keep pace with inflation. Choosing between CS and I, C is most conservative. If somebody says I really don't get this, you can make yourself a C fund expert and you can learn everything there is to know about the C fund, but your long-term money in C and keep a little piece in G and you're done.
When you start grabbing more money, though, it doesn't take too long to understand that S and I can give us real diversification. The S fund has a tendency to out-perform the C fund when the market is going up. The I fund was THE rock star in the good years, 2003 to 2007. Hasn't had anything to brag about recently but they're different funds and kind a nice to see a mix of them once your Thrift plans start to get bigger.
When it comes to allocating Thrift, then, it's all about your time frames. And then talk about your temperament. So if the -- we know we're not spending any of this money any time soon. That means it can all be in stock. But just me saying that out loud kind of made you crazy, that means your investment temperament wants a little in that G fund. If you're using more than one market based fund, though, it's your job to keep it balanced. There's something called market drift. In up markets, my more aggressive investments often outperform my more conservative investments, and if I never rebalance, the whole portfolio becomes more aggressive and I personally didn't. It's not hard to rebalance. You need your PIN number. I hope that's not a deal breaker. But if you know you always second guess yourself when it comes to rebalancing or you're not sure how often you're supposed to look at this, maybe we should try to manage market drift risk a different way. This is showing you that if a portfolio started in 1992 with 50% in stocks and 40% in bonds and 10% in cash and never rebalanced, it has considerably more stock in 2012. Now that's fine with me, right? That looks okay, but what if it wasn't fine with me? What if I had been retired all those years because 62% in stock when the stock market drops is going to mean that this portfolio takes a longer time to recover in a down market. So you can rebalance. But if you don't like to, then just pick an L fund. There are five of them and it's going to be easier to see on this chart. The L income fund is mostly G. 75% in the G fund. never to grow fast enough to keep pace with taxes and inflation. To the right is the F fund, a tiny position in that. That's 12% in C and little tiny less than 10% in the S and the I funds.
And then if you move from left to right, 2020 fund has considerably less in G, and it all went into stock. The 20-30 fund, mostly a stock fund. 2040 fund is mostly a stock fund and 2050 fund, 85% stock. You would look at those five funds and say what does my money need to do for me? Do I need most of my money in growth? And then you would be looking at, well, that's a 20, 30, 40 or 50 fund there. Really 2040 or 50. Those are growth funds. And then can I stomach that? Or am I the person who just really says I would rather work my entire life than take market risks, then you would move in. Acknowledge how much of your money needs to be in the market based on time frames

and then you come closer to the L income fund if you're trying to manage your human nature risk, your own temperament.

What I love about the L funds, every single day it's going to rebalance back to the model. You never, ever have to rebalance this thing and every single quarter, it's moving into cash. So look how this works.

If I put all my money in the 2040 fund today in the year 2040 it's going to look like the L income fund. You never have to rebalance it. It's just steadily moving into cash. And you can override at any time you want.

Choosing between them, when do you need the money? How much do you need to have in G? Because the more you have in G the more it's dragging down performance. I tell people to reallocate if you're just an L fund person, just look at it once a year and big life events. Big life events is marriage or divorce, reversal of fortune, inheritance or bankruptcy, birth of a child, those kinds of things, those are game changers. Take a look what is going on. Once a year take a look at the L fund and see, did too much get into G? Do I want to move back out further because I'm still going for growth, or does this make sense to me. If doing it yourself with other funds you probably should be looking at this quarterly and acknowledging what is going on big market days. You're not reallocating quarterly and on market days you're just reviewing it. to see whether or not your -- the big event in your life or big event in the market or the passage of a few months has drifted you off your mark.

Okay. Rebalancing two steps, interfund transfers, that's redistributing the money already in there. And reallocations, that's the money coming out of future paychecks. In an ideal world it's all the same. But to get from too much G to more in stock, we have you do those inter-fund transfers slowly. If you just want the go into the market, you can have new money go into the market, but we're trying to avoid having you put it all in all at once on a bad market day. So before I get into that Roth -- we've got lots of questions coming in, so let me take a look at them. Somebody is asking for long-term growth do you have recommendation for allocating among the various funds? Long-term growth will only come from CS&I. So you can do one L fund mostly CS&I, 2030 or the 2040 or you could do yourself between CSI. Let me share something. I never sat down with somebody and said, oh, my gosh, if you only would have had a little bit more in the S fund you could retire, but because you didn't, you've got to work another three years. That's never happened, right? They're all growth funds. If you're going long term. The C and S fund a little less volatile than I fund. You've got to make up your own mind on how you want to allocate it. But just make sure you're using the growth choices and then you have yourself a growth fund. I have had to tell people who had too much in G, I don't think this is enough. I just don't think this is going to work.

So Kathleen says, what is the opinion of using 2020 and 2030 funds as opposed to doing it on your own? I've just never been one to put trust in a template model? I'm 40 and have individual allocations. You don't have to put your trust in a template model. It's a formula and it -- you know, large primates hitting F10 every day, it's done, done deal. You don't have to trust anything. It's transparent. It is what it is.

But what I could accept as pushback on L funds is all of them have money in G and F and many don't need money in G and F when 40 years old. If you have money out of the market it's because you're going to buy a car and you're not buying a car with

money in your Thrift plan. Balance sheet has cash but Thrift plan probably doesn't need it.
So I think for 2020 and 2030 funds are way too much cash for the average 40-year-old person that I've met. So doing it yourself is fine, but don't -- I just bristled a little at that word "trust." There's nothing about trust going on here. It's a formula and very transparent and it is what it is. You find it works for you or it doesn't.
Kay is asking, long-term care insurance. I'm going to get to that. The question -- I'll go ahead and answer, Kay, is it wiser to buy now or later? You got to be healthy to buy it. So if you're already 58, you're in that primetime for a better hurry up and buy it, not only does the cost go up a little bit each year, but if you develop any kind annoying health problem that is not life-threatening, it takes you out of the running for this. A little bit of bad back, blood pressure controlled by medication you may not be able to buy it. If you're healthy, get it today. It will save time and address that as a group, though.
James is asking, the F fund is much mall lined these days. It's much maligned. You're asking for my thoughts. The probably with the F fund is that it's a formula, it's an index fund and I know why the Thrift board had to pick it. They needed to put in at least some kind of bond option, but the index that they've got in there just doesn't have a lot of broad application for somebody who is still working. If I was putting bonds in a portfolio today knowing that interest rates are more likely to go up than down I would want shorter term bonds than what are if that index. If I were putting bonds in a portfolio today I would be looking for a much shorter -- maybe even a lower grade. These are high grade bonds. So that I could get a little better yield. There's not an index like that. And I also know that the longer you have a federal government service, the better your federal pension is going to be, the more the argument for owning bonds at all at this stage of your life, and even as young retirees goes away because your pension, that steady predictable income, no chance of loss pension, is replacing the need to put bonds in a portfolio. So don't feel sorry for them, but their bonds are tough, but we really don't use it. You notice the L funds don't use it either, less than 10% in either of them. Here is a question, investment options for my husband 58 years old contributing to 401(k) only 25 years. If we have credit card date and focus on paying it off, paying off the highest interest rate.
So there are a couple things in there. One question I think I'm teasing out of that is if I have credit card debt should I be investing? Or if I only have a dollar does it go into 401(k) or Thrift savings or pay down the credit card debt? The answer is depends on how expensive the credit card debt is, but I truly tell people to take second jobs before I tell them to pay off credit card debt or rent out extra bedrooms or you know, do a part-time -- sell everything you hate that is cluttering your house on ebay. I would do all of that before I would not put money in my 401(k) or Thrift plan. With that as a caveat, if you tried all that and we still have credit card debt I go 50/50. Make sure we're putting in at least up to the match or at least half of the 18,000 and then paying down the credit card and definitely pay off the credit card with the highest interest rate first.
Tim is asking, do you have an opinion -- probably -- on managed funds versus index funds for investing. I wasn't going to talk about that unless it came up, so this is a good time to bring it up. Managed funds outperform when the market goes down and index funds out perform when the market goes up. The market seems to go up since we've been tracking it more than it goes down, so index funds have higher rates of return. So

index fund, so everybody knows what we're chatting about here, Tim, is a fund that nobody makes decisions on other than when it first gets started we're going to follow this particular index, this particular formula. So the S&P 500 is the most widely recognized. It's 500 large company stocks. If you own a mutual fund like the C fund or the S&P 500 vanguard, fidelity or Merrill Lynch, we would own the same 500 stocks and when one company gets pushed out of the 500 and a new company comes in and kicks Kodak out, we all on the same day had that same change made in our S&P 500. And it's great because we know that we're not paying for research. We're not paying for intuition, we're not paying for a judgment call. It's about as cost effective and simple investment that gives us diversification. We like the index fund. But when the markets are dropping, it's kind of nice sometimes to have a manager. In 1999 if you looked at the S&P500, the 500 companies in there, in October or November, it looked like all of them except about 20 were going to be barely breaking even for the year or maybe even dropping. And the vast majority of all the rate of return, which was a huge year, 99 was a really good year for the S&P500. Coming from one company, Microsoft. If you're a manager in charge of 500 companies and all of them except 20 are doing poorly and you've had some great years, a manager might say, you know this might be a time to take some of these moneys off the table, let's just sit in cash for a while. If you had done that in 1999 you would have missed three down years in a row. Of course then you have to know when to buy back in. And since you can't hit it exactly right, what happens is when we're managing, we're probably not going to get as great a return as that long-term just buy and hold. I think index funds make brilliantly good sense while you're working, but as you start to spend down it may become more important to you to give up some of the long-term rate of return to make sure that it's not falling as far.
So there's all different kinds of ways. Some managers manage based on moving averages and some manage on intuition and tea leaves, but as it goes, I like both for my retired clients. I like a mix of managed and unmanaged index funds. While you're working, I love the index funds because for you even a market drop is not bad news. You know that. Markets haven't been great. You're buying more shares than you would have had the markets been going up and since y'all came to work today it occurs to me that nobody really has much short-term money there.
I was also handed a few of these.
Here is a question. Do I recommend hiring a financial planner? How do they establish their fees? You know what I really recommend, Dan? I recommend that you accept the responsibility being your financial planner and then occasionally you may need or want some help. Know what you want. If you go out into the marketplace and say, I'm looking for somebody who can give me an opinion on whether or not I can afford to retire, whether I've got my Thrift allocated correctly and whether I'm a candidate for long-term care insurance or jumping the gun, how to get kids through college without going broke and whatever. I'm just making up classic topics, right? Then you would interview that person and say to them, how much will it cost?
What do I get? What qualifies you to give me this advice? And you start to hear that, yeah, it's worth it or, no, that sounds more expensive, I want to do it myself. Or wait a minute, that wasn't clear. I didn't really hear you say how you're going to get compensated. I like more transparency. So even if you want some help, know what you want. Some people just need a little second opinion. Some people prefer a private

tutorial. I mean, you're kind of lucky to get any kind of training at all, a lot of employees don't get this kind of financial planning training, right? As part of an employee benefit. But maybe you would like a private tutorial. Maybe that's the kind of financial planning you're looking for. And of course some people don't want to manage their own money or some people can't. My 94-year-old mother can't manage her own money. Somebody has to do it for her. If she didn't have a financial planner in the family who gives her the discount, it would be nice to know you're going to hire somebody at some point under certain conditions rather than running the risk of being sold something you really don't need when you might be at a stage of life where you're most vulnerable for making poor judgments because you're getting on in years, you're a little too trusting or starting to suffer from dementia. I don't recommend everybody needs an advisor. I think a lot of people do a good job on their own. But I also think that some people over time need second opinion, private tutorials, or money management when they can't do it themselves.

Here is a question from Margaret. If I retire this year can I still put money into an IRA for 2016? Yes, as long as you have money -- any kind of income, you can put up to 100% of your income into an IRA, the cap is 6500 if you're over 50, 5500 if you're over 50. So as long as you made 55 or $6,500, you could put that much into an IRA before you file taxes next year.

Here is a question from Clayton. Five years ago I accepted full ownership of the house my parents live in in lieu of reverse mortgage. I retire in two years. I intend to live in once vacated by my parents and settled informally with my siblings. What are the tax implications of such a move?

So if you sell your house, the tax implications of that, as long as it's been your primary residence for two of the previous five years, which clearly would be. Then you're going to be able to sell that and not pay a capital gain unless the gain is more than $250,000 or if you're married, 500,000. Now you move into your parents' house that you already own. So your basis in your parents' home is whatever they paid for it, improvements. If you eventually sell that house under current law anyway, don't make me keep saying that, we can go through the same two out of five years but the basis is going to be considerably lower because we're going back to when your parents bought that house. So that's how the tax would work on houses. Settle informally with your siblings means you're going to make gifts to your siblings and you're allowed to give each of your siblings each year $14,000 without having to file a gift tax return. So I could give each of my siblings $14,000 today, do it again in January, no need to file a gift tax return. No need to -- for reporting, all right?

And if you were going to try to do much more than that, what happens is you've got to file gift tax return and it reduces the amount of your own estate you can pass along as state tax free. Might not be a big deal federally, because limits are high, but depending on what state you live in, every state has a different rule for when -- what threshold can pass along from a deceased person to another person before they tax it. So you would want to look that up.

So those are the general things you need to be thinking about.

Got one more and then I think you're probably getting a little restless on me. Here is a question. Kathleen. Should we allocate funds in the Thrift once retired or keep it in the G fund? Well, how long are you going to be retired, Kathleen? Take your time, be specific. I don't know is the answer. But if you're reasonably healthy when you retire, you're going to be retired odds are decades. If I leave my money in G fund when I retire, that means it will never grow. if I've got tons of money in there and it can live easily on my pension, maybe it doesn't need to grow. But I'll give you the example of my own family. Dad retired age 70, mother 68 years old, both had relatives live well into their 90seven past 100. My mother at 94 still just starting with the gray hair thing, okay? So these Kelly Donnellys, they're hanger-oners I guess. I knew even though they were 68 and 70, for me to do conventional wisdom, move it out of the market, was running too much of a risk we would run out of money. If it's out of the market, it buys less and less and less and less. My dad died fairly suddenly. Diagnosed and gone in a few months with a very rare lung ailment and then he got pneumonia. So he was gone at 76. I was very sad and my mother never recovered. She started a slow steady dementia, kind of like the Ronald Reagan, may she rest in peace, Nancy, she took care of him for a long time. We know that -- we noticed it right away, that my mother really couldn't take care of herself. Physically, incredible specimen, but mentally was checked out totally. So we sold her house and I invested the proceeds totally for growth. And I can tell you if I hadn't made those two decisions, remember that my mom and dad pretty long -- pretty much longevity on both sides of that family, I better invest for growth. And if I hadn't said you know what, we need to sell that house and get more money working here, we would be out of money by now. Totally out of money by now. So let's not think about I'm retiring or not retiring to make an allocation decision. Let's talk about what? What does this money need to do for me?

Barbara is between 2020 and 2030, look at ten more years of work. That's a 2030, 2040 kind of consideration where I come from, Barbara.

It doesn't make that much difference one to the next, but the further out you go, the more it's going to keep pace with inflation. The closer in you come, the more it doesn't grow. So if you need it to grow because you might live to be 90, it can't grow if it's in the G fund. You got to make up your own mind on that. I wouldn't flip a magic coin but settle back and say why are we getting torn up about that? We ought to get torn up about, oh, my gosh, what if I do live to be 90, will I have money? How much is a cup of coffee when I'm 90?

Emily has money in savings bond from when I was in the military service. Face value is over 12,000. What and how -- when and how should they be cashed or reinvested? I'm going to tell you to go -- if you haven't already you probably have since you know the dollar amount, treasury.gov and put those bonds into the bond wizard program so we know exactly what they're paying now. The bonds will stop paying after you've owned them for 30 years. So once they're not paying anything, we're going to probably need to sell them and you'll pay tax on the amount of -- if I sold something for $12,000, I would pay tax on anything that was more than what I paid for them.

So you probably will come up with an idea of selling them slowly just like you bought them, so if you bought them between 85 and '96 probably sell them between now and the next five to ten years. It's not that much money that it's going to make a big difference on your tax return, so if the notion of going slowly is just kind of a little bit too much thinking and a little too much of a waste of time, how about sell the ones that aren't paying anything and the next time you need to buy a car or the next time you're taking a big vacation, sell them, pay a little bit of tax and use the money.

So what I think we need do is give you another stand up and stretch. The next topic is transferring money out of Thrift and we'll talk about the traditional versus the Roth, and then the final section I'll talk a little bit about the estate planning and insurances. Let's take ten minutes here. It's about 2:15, 2:16, and we'll pick it up from there.
[break]

>> Welcome back. I hope you got to stand up and stretch a little bit, but I can see we have a bunch of questions here. One from Karen, if I retire 57, 32 years of service, I want to withdraw my Thrift Roth total balance, which is tax free when I turn 59 and a half, how can I do this? You have to take all the Thrift money, not just the Thrift Roth part but the traditional part, you would take the traditional and put it in traditional IRA and the Roth put it in a Roth IRA. So hold on to that thought, Karen, we're going to go through the pros and cons of doing that and a the mechanics so that you don't run into mischief if you decide to pull that off.

If 62 retiring soon, 2020 make sense or too conservative? Seems like it might not be the best choice. I think you're on to something, Margaret. The 2020 funds means you don't need the money to grow anymore. So I'm going to be in my mid 60sin 2020, that sounds reasonable, but what do I already know? I know that at 62 almost I'm still healthy, still earning professional income I my mother is still alive, I've taken on the responsibility of educating another kid, a niece. The 2020 fund makes no sense for me. So you decide that way. If you're not going to spend any of this money soon, having it all sit in an account where it can't keep pace with inflation may not make sense. But I also want to talk a little bit when we talk about the pros and cons of moving it, those index funds become a little more -- less appealing when we're not buying into them, when we're retired people. So I have a couple things to layer on before you make up your mind on that. If it's 60 and looking to retire at 63, have about 250,000 in the Thrift, is 2050 fund the best fund? Well, I would love to answer that, but I have no information that would help me guide you on that. So if I was trying to give somebody information on whether they have enough money to retire, I would have to know how much money they were going to spend out of that and when they were going to spend it. Just because people retire really doesn't tell me that they need to spend the money. Some people live very comfortably on pensions and they choose when to spend the money. Some people if we don't spend money out of Thrift right away bad things are going to happen because bills aren't going to be paid. So back it up a little bit and just think, when am I likely to spend this money? If this is long-term money, not going to spend it at all in the next five years, it's got to go into the market. If it's short-term money, it's got to be in cash and then what kind of investor are you? Do you panic about things? Then we do more cash for you. Not because it's a great idea but because we have to manage one more thing with you and that's tendency to want to sell quickly. So we round up the cash to hopefully calm you down a little bit.

Lisa is asking, is there a better time to do a rollover from traditional account from previous employer I would like to roll into Thrift savings plan. As long as we're going from traditional 401(k), 403B, whatever you had, into traditional Thrift, you can do that any time. If you're thinking about it more from the investment point of view, if you're in stocks in the old plan and coming into stocks in the new plan, doesn't matter, does it?

Because you're going to be selling and buying on the same day. When it actually happens, it's an electronic transfer. So go on the Thrift website and look at how the paperwork works. You don't get to pick the day it moves, but when it moves it moves electronically. Going from cash in old plan you want it coming into the G fund but they'll do it prorated. So I don't think it's going to be much of a problem for you timing-wise. We've got somebody who has got 220,000 in her Thrift or his Thrift, planning on retiring in four years, my money is all in G, what do you think I should do? I think what you should do is figure out, is this long-term money or not? Whenever we see a pile of cash, whether it's in the G fund or in a money market fund or CDsand we're talking to a person who all their goals for spending this money are long term, can't imagine spending this money any time soon, we know the job at hand is to get that cash into the market, but we usually go in over time. So if I had a couple hundred thousand dollars from a client that needed to be invested I would not invest it all today. I would invest some and then do some more next month and the next month and the next month. If I was really doing it, I might pick and choose a little bit -- because I would have staff that could be staring at a computer screen all day, something I would never do, and this is a really good day, we're going to go in a little faster, but a layperson doing it on their own, we usually just divide the money, dividing it over 12, 18 months, slowly but surely going into the market. Because the market is going to go up and down. Up and down. Down, down, down... that's what it does. And when you go in all at once and just your luck it drops dramatically, you think back to class, I didn't belong in the market and you jump out, seemed like such a nice person and I never should have listened to that class and you've done exactly the worst thing. Bought high and sold low. When people go slowly over time they start to see that even when the market is down it's not necessarily bad news because you buy more shares when the market is down and when the market recovers, all your shares grow.
So I think what you really should do is ask yourself, what is this money for? And then if it's for long-term goals, think of strategies to get yourself into the market without making yourself crazy about it too.
Here is a question. I didn't get a chance to ask yesterday, I've got a 24-year-old disabled son and my wife and I have guardianship and he receives SSI. Will his amount change when I retire and when I die? I don't know is my official answer to that. It would depend on the SSI really is just what somebody who -- was never able to earn 40-quarters because of some kind of disability, receive some Social Security but it ties to that their health insurance, whether he's eligible for Medicare or Medicaid in the state, and because it's nuanced state by state, that's a great question to ask either an elder care attorney or a Social Security expert on that. What you do want to make sure is that -- what would change it is if he inherited money directly from you and because some of the benefits that he's receiving might be means tested, so you might need to talk to an attorney to make sure this goes into a special needs trust. But if it's a specific question, will it change, let's look it up at your state level and see if it does.
Anybody else got a question there?
Carl is asking, do you recommend an IRA or okay to just invest money in the Thrift? I have people do Thrift until you can't, and the only reason you couldn't is because you're at the limit. So I always have people do their first 18 or over 50, $24,000 right into Thrift because it's cheap and easy. It's just easy. There's something really beautiful about

giving people easy to follow advice. When you go out to an IRA, it's with money beyond that. It's not that I don't like IRA, and I've got a few slides we can talk about IRAsa little bit. Your comment here is I know my portfolio works better when diversified. We can choose between the CSI funds. You can put a little in G and F if you like. CSI make a lot of sense. What may happen for you is that at the end of your career you could have huge money in CSI and you might want something not quite as volatile and we can buy that in your IRA, but for ease and convenience, I'm almost always recommending people just do the Thrift Savings Plan. Any IRA you do is going to be more expensive than this.

And then I've got another one here. I didn't hear the answer to my question previously asked. 66, full-time federal employee, and plan to retire in a few years. Can I receive a Social Security check while working? And the answer is yes. If 66 is your full retirement age under Social Security. Not if you're -- well... I'm going to have to check that. Let me do that. Because I just -- I'm sorry to be hedging here. I just went through five examples in my brain. So it's a question we'll save and send that to Joanne because Joanne did the Social Security and she's going to answer a few questions next year, so rather than me spit out my five examples where I have three no's and a yes, let's save that one for Joanne. Sorry, Eileen.

And then I've got another one here, Karen, my wife is an RN, has a 403B just like Thrift with so much matching and two traditional IRAs. She remains employed can she transfer a portion or most of her 403B in her IRAs. And the answer is yes. And to balance them out. And then keep rebuilding it. The answer is yes but I don't know that I would need to do that. The only reason I would be doing that either because the 403 (b) had expensive fees and so I would be wanting to transfer out routinely. I don't need to have money balanced between 403 (b) and IRAs. It can be in one or the other or split. Where we need balance is the kind of investments. Where you need convenience is when it comes time to withdraw it. So there's no -- there's no magic in balancing between an IRA. You can find all the same investments for 403 (b) and the IRA, or you can find different ones. It's the investments that need to be balanced, not necessarily the amounts in the two. So look at what the investments are and see whether you really need to go ahead with that. Laurie is asking safe to establish online or do I need to go to a financial planner? It's safe online if you're working with a major brokerage firm or mutual fund company. It's all online. If you do go to a financial planner, you're probably going to have to pay them and either the planner is going to ask for fee upfront to do that or bill you for their time or they're going to earn -- recommend a mutual fund that pays them and that's a load, another way of saying that is a commission. It's not eel, but when you're asking for help, you -- it's not evil, but when asking for help you pay for that. You can go to major, Schwab, Vanguard, TIAA, you've heard of these places, go to their websites and see if you understand them. They all have paid employees at the other end of a toll-free number and see if you can't do it yourself. But you're picking the fund.

Alan said, did I miss something that I can start drawing against my Thrift when I plan on retiring? Did I miss when I can start drawing against my Thrift? I plan on retiring at MRI plus 30. I don't know how Joanne covered yesterday. I'm going to talk about withdrawals in a minute here so I'm not sure if you missed it or not. But you have to be 55 to withdraw from Thrift. Allow me to make a point. Just because I'm allowed to do something doesn't mean it's a good idea. So when we talk about how and when to spend down, Alan, factor that into whether or not this is something that you actually want to do. It's nice to know what the rule is. The rule is age 55. For Thrift, 59 and a half for IRAsand other individual retirement accounts, but let's see if that makes sense at all.

Okay, so another topic here that we have. We wanted to talk you through a little bit whether or not it made sense for you to put money into the traditional Thrift or the Roth Thrift. So in either case we're talking about the same $18,000 or the same 24,000 depending on how old you are. And for either one the investments are all the same. But there is quite a difference. Right now we know that the -- you potentially could have two kinds of accounts. Anything going in from the agency or anything going in for matching, that's all going into traditional. Where you get to choose is with your own money. But the difference is really kind of big. It's when it gets taxed. So let's think about it. If I put money in traditional Thrift, $18,000 in and live in a state that has income taxes where I do, so I save about 30 cents on a dollar on my current year tax return for every dollar I would be putting into Thrift. If I put $18,000 in a Thrift it saves me $16,000 this year. If I put that money in Roth IRA I have to pay the $6,000. I didn't save the money. Both of them are the same once the money is in there. So whether earning interest, dividends, capital gains in any of the funds or L fund, no tax while it's in there. But then the other difference is when you take the money out. When you take the money out of a traditional Thrift, you got to pay the tax on it. When you take the money out of the Roth Thrift you don't pay tax on it. You've already paid cash on your contribution, everything is going to come out tax free. You don't need a spreadsheet to figure this out. Tax-free is better than tax-deferred. The problem is it takes a while for it to be better. And I'm concerned that you might not live long enough to have it make any sense or that they change the tax laws on us. Have you ever heard of anything like that? I started giving advice when Social Security checks were not taxed. They are now.

So I'll give you an example to see if it makes sense to you. My brother and I look very much alike. Kevin and Karen Kelly. So Kevin and Karen Kelly both joined the federal as products of the Kelly-Donnelly clans that seem to live forever so we save $18,000 first year on the job. And I'm going to do traditional and he's going to do Roth. So in the first year I'm $6,000 ahead of him, because I know I don't want to run out of money, I take my $6,000 that I didn't have to pay in taxes and I put it in an IRA or other investments, so every year when I'm saving money on taxes I'm building a little slush fund. My brother is having to pay the tax, so he just has Thrift. I have Thrift plus other money. In one year I'm $6,000 a year. In two years I'm 12,000 plus growth ahead. And we keep going and going and going until we turn 50 at exactly the same time, we're twins in this example and now we start putting in $24,000 and now we start -- I start saving even more.

We retire like typical Feds, late 70s, early 60sand we can spend our Thrift money but we know for us that would be silly because we might live to be 100. So we work little part-time jobs or live modestly on pensions and Social Security checks. We don't touch Thrift at all until we have to. And when is that? 70 and a half. We have to take out a required minimum distribution. If that was this year, it would be 3 and a half percent-ish. I pay tax. He doesn't. Did he catch up with me? After all this time I got huge money

outside my Thrift that he doesn't have. We're going to go through our 70s, each taking required minimum distribution and every once in a while buying a car, taking a trip, fixing up the house. I'm still ahead of him. 80s, still ahead of him. I can't give you the exact crossover point because we don't know what the tax law is going to be. We don't know which year I'm going to have big deductions for medical expenses and charitable contribution us and which years I won't. But if I did a Roth contribution today it gives me absolutely no benefit whatsoever for at least a few decades, and that's the problem. That's the problem. Right?
What if they change the tax laws? What if I don't live another -- I'm supposed to live a long time. I might not make it home tonight, right? So we understand that the Roth option, when you have to give up a deduction, is very different from the Roth IRA where you don't give up a deduction. Okay?
So I'm seeing a couple more -- think about that, percolate on that a little bit. I'm seeing a little more questions here. Cindy asks, if 97% of my Thrift is C fund and don't plan to retire for ten years, does it make sense to change it to 2050 fund? It's up to you, Cindy. I'm fine with you going in the C fund. It's more diversified if you go to the 2050 fund but it will also have a little more out of the market than what you have right now. If you've got -- if the 5% is in the G fund -- I don't know where your other 5% is, the 2050 fund has 15% between G and F. So it would drag things down a little bit but certainly is an easy way to invest and know you'll never have to rebalance that. So both of them are good options. There's no way that you could say one is better than the other. Which one do you like better? Which one gives you more confidence? that's a perfectly sound way to make that decision.
Here is another one. So can I choose the 2040 fund, I would be 78 years old in the year 2040 and start withdrawing at 65. Of course, just because my money is invested according to a calendar year way out there in the future doesn't mean I can't spend money. And it doesn't mean you can't change your mind. But wait to make your decision until you also hear how the choices are going to work when we're actually spending money down.

Can I contribute 18,000 to Thrift with a check or does it have to be payroll deducted? That's from Marie, and I'm glad you asked. It has to be payroll deducted. That's one way the Thrift board keeps their fees low. I have a plan for myself and employees and, you know, if they want to write a check, because they came into a little windfall and have been underfunding it all year, we can do that. But the federal government is not a small business. The federal government has to have pretty straightforward rules and no bending on them or the fees would go up way too much.

Got that one. All right. I think we made it through some of those questions. Let's go on. So I've answered the question about whether or not it makes any sense for you to put money into Thrift. It just -- Roth, Thrift, and know how valuable giving up that deduction is. But what if you had a little extra money? When you have a little extra money, that's kind of when I like the IRAs. You know how IRAswork. The individual retirement accounts, gives you a little tax advantage. Some of you who didn't start saving for a long time and now you realize I got to catch up here, or you finally got the

kids off your payroll and got a little extra money, we know that supplementing the Thrift with occasionally investing in IRAsdoes nothing but good for you in your retirement.
The difference when we're talking IRAsand Roth and traditional is neater one of them are deductible. Most IRAsstop being deductible for us, traditional IRAsin 1987 and Roth never were deductible. If you can make your contribution through Roth IRA go ahead and do it. Do you know what the rules are? Maybe I should go over them for you. On a Roth, if you want to make a contribution to an IRA, all you have to do is have a job or married to somebody with a job, so that covers most of us in class today, and you have to be under the age of 70 and a half. If you can hit that, you're working or spouse is working and you're under the age of 70 and a half, you're eligible for an IRA contribution. I wouldn't be doing it or bothering until I was fully funding my Thrift, but you've got a couple extra bucks or want to stack the deck in your favor, we now start doing the IRAs. If you want a Roth IRA you have to pass one more test, and the test is, can't make more than X amount of money. Most federal government employees are eligible to make Roth contributions because for single people, after your deductions, the income ceiling is getting to be around -- I think it's 110, $15,000, for married couples it's starting to be around $190,000 after deductions. If you are eligible for a Roth IRA and you want to make a contribution to an IRA, I'd go ahead and do it. If you're making too much money, we still have you do the IRA contribution, you just do it into the traditional IRA. You don't get any deduction, but this chart shows you how tax deferred money is still better than taxable money. If I just did the investment and paid my taxes every year, I don't make quite as much as if I leave it alone, don't have to pay taxes and then take it out. This shows example of lump sum of $10,000 or starting small, which a lot of us have to start small. Look at the advantage of how the money can still grow for you.
So it's still a benefit to do an IRA even if it can't be Roth, even if you don't get a deduction. And just so you know, this slide has a lot of information on it. We're going to post these slides for you and keep them available for you. So between doing a little homework, looking over the workbook, perusing through the slides one more time, you can start having the information you need to make your own decisions on that.
So I tell people if they're doing IRA contributions you definitely make your contribution to a Roth IRA unless you can't, and if you can't, you make your contribution to a traditional IRA.
So here is a question, most IRA money is in Roth but I have 10,000 in a traditional IRA, do you recommend moving to the Thrift due to the low cost coming paired with IRA fees charged by financial institutions? That would be one reason to move. To me it's an ease of management. The fees -- just because the fees in the Thrift plan are rock bottom doesn't mean that the fees that you're paying for your IRA are outrageous, but they could be. So I think it's a healthy exercise to try to figure out what you're really paying, right? So is this a fee that you pay to commission for somebody to pick a mutual fund for you that has a load. Be careful about moving it too soon because there might be a back end surrender charge. But if this was a no load mutual fund you picked yourself and it doesn't have any load or surrender charges in it, moving it to the Thrift to save you a couple of bucks.
Tony is asking, would it make sense -- would it make sense to take my savings bonds, 10,000, and turn them into an IRA? I'll give you a qualified maybe. Whether you have 10,000 in savings bonds and sell them, you have to pay some amount in tax. There's

no way we can just take bonds and put them directly into the IRA. I'm sorry. It's just a rule.
So you got to have some tax. Then we have less than $10,000. The maximum I can put in an IRA is the 5500 or 6500, depending on how old you are. Over 50, it's 6500. And then you can invest for better growth, a savings bond and it will protect the future earnings from tax for a while until we take it out, or eligible for a Roth you'll never pay tax on earnings again. So there's a lot about that question I really, really like, but I have to say I don't know what I would do until I really saw what the taxes would be on those savings bonds.
Avoiding taxes, not enough reason to leave something in a low-paying bond instead of getting into a real investment, but you still hate surprises.
All right. So let's look then at this whole notion that came up a couple of times about diversification. I just wanted to give you a couple general investment concepts. You'll hear every investment advisor or every financial planner talk about diversification, don't put all your eggs in one basket, but what we're really talking about here is not one financial institution to the next. It's -- we're talking about actual investments, right?
So try not to have the S&P500 in your Thrift plan, your IRA and your significant other's 403 (b) and IRA, right? We have to understand that diversification comes at the investment level, not necessarily the various account level.
But a question I get every once in a while is once I'm trying to make investment decisions on my own, should I be buying mutual funds or the investment outright? You could just buy a rental property, just go pick a stock, pick a company you're interested in and buy some stocks or buy some bonds related to that company, but what we know is that it's going to be way easier if you do funds for at least the stocks and bonds. With real estate I'm not so sure that analogy is going to play through, but when I buy a mutual fund that has stocks or stocks and bonds or just bonds in it, I'm delegating the day-to-day responsibility to either a formula that somebody basically sits or a manager that has within the objectives of the fund leeway to make the buy/sell decisions. It's also for most of us going to be way more cost effective. In the money world, everybody gets paid based on the size of the account, because it doesn't take twice as many employees to manage twice as many funds. Once we have our employees in our business model all set up, we're now getting -- it's all profit after that. If I started managing another $100 million I don't need any more employees, so of course I can give a discount, I can give a lower fee to the bigger account, and that's the way of the world all the way from the smallest independent financial planner to the largest warehouse. When I'm just me buying a couple shares of stocks, I get charged a big transaction fee compared to somebody who says, I'm placing an order for $100 million at noon. They're going to get a lower transaction fee. Once I'm in mutual funds I can take advantage of those economies of scale to get my diversification.
So I like you to keep things simple. I'm a huge fan of mutual funds. They're practical. Keeping up with a couple stocks I think okay is for a lot of us. I grew up in Detroit. PITI -- pay attention what is going on with Ford Motor Company and my husband grew up on a farm and pays attention to John Deere. If you ask me past that more than two or three stocks, I'm out. I don't have time for that and it's an ongoing basis.
When real estate, you can buy in a real estate investment trust, but what we really like about layering real estate in is to -- it really offers you some diversification. Stocks and

bonds kind of correlated. My real estate often comes in from Mars and yet historically grows fast enough to keep pace with inflation, historically less correlated to my other investments, but to do that inside a fund means I'm correlating it again, right? So I often have people just learn about mutual funds for your IRAsor that extra money that you think you can save on a monthly basis. If you're going to invest in real estate, we probably want to go and buy a rental property and now we've got to be sure we have the money for the care and feeding. My real estate investments, right? I might have a tenant who moves out and breaks the lease. I might have a tenant who moves out and left the place a mess. I might have a tenant who won't move out even though it seemed like great investment and if I hadn't had those particular tenants it would have been a great investment, right? So real estate as an investment, unless this is something you're really good at, is the last thing that we often consider.

My real estate requires -- I got a slide on this. Unpredictable time and money. So even though it can be a great investment for some of us, sometimes we just don't do it.

All right. So let me just pause and see if I had any other questions here. A couple were handed to me.

I'm retiring at age 60 in two years and moved all my Thrift to the 2020 fund. Since I also have a military reserve pension an don't foresee using this any time soon perhaps it will go to my survivor. So I move it to -- move it out further or structure it at my own distribution.

I don't know. That's going to be my official answer to a lot of these, but here is what I would think about. Are you good at this? Or is this money that is likely not to be spent in your lifetime? It's going to somebody else. Is it time to involve them in what do you like and don't like and are you good at this? Here is a test. What did you do a couple months ago when a lead story was the markets are falling apart? What did you do in 2007/2008 as our economy tanked? If you stayed steady and bought, you can be a do-it-yourselfer. You didn't do the panic cell. If you're second guessing or never done it before, you don't know, never been tested before, then I'm inclined to say pick an L fund, but because this isn't really going to be spent certainly in early retirement for you, consider going out further. If you convince yourself or get through the first couple years of retirement and say, see, yeah, I'm not using this at all, you would be a candidate for considering moving it out further to get more of this into stock. Good questions.

I got a question from David. I'm not watching it live. I'm 30 minutes behind, but if you haven't done so, could you speak to the relative increase in risk versus relative increase risk that could reasonably be expected for the different funds. Okay, we already did that. Another planner suggested it wasn't worth potentially even with the L funds.

So if a planner is telling you the Thrift plan isn't worth your investment, then you need to go to another planner. Sometimes people say, don't put money in the Thrift plan because they can't get paid. If your money is going into Thrift that means it's not going into a product that is going to pay them. So I'm not sure that I really understand the part about the relative increase risk for return. I think we went through those, so I think you'll get that, but we always, always maximize on the Thrift.

Some background. After training I changed my Thrift allocation but I don't have it right here. Currently I contribute 5% to Thrift, 5% to Roth, also have a non-fed Roth. Yeah, so my concern is how much is going into the IRA, right? If somebody told you to put 5% into Thrift and 5% into Thrift, Roth, and more money in a Roth IRA, if you're doing it yourself, you're giving up a lot in deductions right now and whether -- and knowing that you've got mandatory retirement coming up as a law enforcement officer we need to get you a lot of money in case you aren't going to be doing a second career there. I saw a couple other questions come up while I was reading those, if you can put those up, Mary.

Here is one. So with Thrift you recommend traditional IRA out of Thrift or Roth, am I understanding that correctly? With Thrift I recommend traditional Thrift. And with Roth I recommend -- with IRA I recommend the Roth if you can. Because not everybody is eligible to do the Roth. Some of you make too much money. And the reason I said that was because I love that deduction. I love that deduction right now when I'm doing my taxes and get my refund. Or when I decrease my withholdings and still all my taxes were paid and took that extra money and got to invest it, I love all of that.

Steve is saying, I've got the same question as Margaret. I was a bit confused on that as well.

Steve, I don't know what Margaret's question was, so...

Let's see. Okay, here it is. Thank you. With Thrift you recommend traditional. I think part of this confusion is coming from, when you're asking your questions, you're sometimes calling Thrift traditional IRA, and what we have to do is get the adjectives and the nouns right or my answer is going to go right past you. There is no such thing as a traditional Thrift IRA. It's either going to be a Thrift or an IRA. One or the other. But both Thrift and IRAshave traditional and Roth adjectives. And then consequences, okay? So the other question before Margaret's was -- did I get this right? With all of the things being equal, if I meet people as clients for the most part we really like traditional Thrift because you get a deduction. We like Roth IRAs. You didn't have to give up a deduction to get into a Roth IRA, but not everybody qualifies for a Roth IRA, so that's what that slide was about it still makes sense for you to do a traditional IRA if you have extra money, because deferring the tax for a while, ten years, still means you're coming out ahead.

So you're going -- I'm not going to say it's the biggest mistake I've seen to have people do the Roth Thrift, but it means you're overpaying your taxes and didn't give you any benefit at all and it won't until we're years into spending it down.

And what if they change the tax law? And the reason I keep saying that is it's been in the budget proposal about three years. Every budget proposal that comes out recommends watering down Thrift, and when that actually happens in law, we don't know, but we've been -- telegraphed the message that, hmm, these Roth IRAsmay not be as great as we thought they were going to be if we have other sources of income or if we live a really long time.

Should new IRAs only be initiated when the Thrift is maxed out for the year? That's my preference. And when somebody tells you to put money in Thrift and do the IRA, my antenna goes up and says wait a minute, I bet they're going to sell you something. Notice the only way they can make a living. If you're a do-it-yourselfer, of course, maximize your Thrift and look around if you have extra money, then you think about IRAs. Excellent you've got it.

I think we answered that one.

So let's do the spin down phase and that will percolate a few more questions for you. Just a time check there.

When spending down our money, now things are different.
You know, aggressively save the money, live within our means, but to spend it down and make it last as long as we might last, we've got to think about it differently. You may have heard about how much is reasonable. Most people don't want to run out of money, so if you read anything about retirement, you'll read that if you spend about 4% a year adjusted for inflation, you should be able to make the money last about 30 years. So the example would be, if I had $100,000 that I was willing to spend to zero in my lifetime, I'm behaving rationally, if in year one of my retirement, I spend all my pension and all my Social Security check, all my part-time job earnings and $4,000. If we have average inflation of 3%, by year two I've got to take out 4100 and change just to do what 4,000 did two years earlier. By year five I'm taking out 4500. By year 20 I'm taking out $8,000 and by year 30, if I'm not out of money, I will be pretty shortly. That's called the 4% test and it's helpful for some of you because what it should be able to do is give you the confidence that the amount of money you've saved is a reasonable amount or get you motivated when you really do the numbers here and go 4%, that's it? Maybe she meant 4% a month. No, we're talking about 4% a year, $100,000 spending more than $4,000 a year is running a risk that the money is going to spend down too quickly.
A million dollars it means spending more than $40,000 in year one of a 30-year spend-down, we're spending the money too quickly. But you need to understand the way we use this for percent rule is just a test. It doesn't mean it's okay to spend 4% no matter what the heck is going on. Plus inflation. Because you've heard this about I investing before, buy low and sell high. It doesn't mean watch the markets drop and you spend anyway. You have to be careful. A lot of things can happen. What if my health was declining and my expenses went up? Or what if I live longer than the 30 years? Or what if I get some rogue expense? But the biggest risk to all of us is downturns in the market as young retirees. You might not have thought this through but one of the assumptions in the 4% spend-down is that we're actually still invested conservatively for growth as young retirees, and conservative growth portfolio can have as much as 50 if not 60% in stock, and then the bonds or some combination of bonds and cash. So imagine somebody who retired in the year 2008 and they had their money conservatively invested for growth and they took out 4% and the market dropped 30%. In 2009 they took out 4% plus slight adjustment, inflation was pretty low, and the market dropped another 30%. This portfolio is not going to last 30 years. This is barely going to make it through 10, right?
What we have to understand is that 4% test is just that. Just a test. Does it look like we've accumulated enough wealth to supplement the pension and Social Security check or do we need to keep working and let this thing keep growing a bit or just stay on this job and let this keep growing a bit because we don't have enough?
When it really comes to spending, we have to manage the risk, which is big for all of us, that the markets are down when we're young. Young retirees, right?
How do we manage that risk? We either have enough other resources between pensions and Social Security checks that we can live within that, the spending from our Thrift was going to be totally discretionary spending that I can control, tighten my belt a little bit or it's easy for me to work a little part time. I didn't want to, but the markets are down, I think I'll work part time first few years and turn on the income spigots, or I anticipate needing to spend the money and I have the money I was going to spend out

of the market. So that I'm only spending from cash in down markets. We also know that anybody who retired in 2009, after it had already fallen probably, serendipity picked the best time to retire we've seen in the last couple decades because what happened in the stock market from March of 2009? Zoomed up, right? Until very recently. These people, even if they were spending a little bit of money, have actually seen their portfolios grow by about 50%. And if you're five, six, seven years into retirement and your portfolio was bigger than when we started, we can take the 4% maybe up to 6%. The key is getting the first ten years right. If the average retirement is now going to be 30 years, if we can get the first 10 years right, which means what? My money is still growing. I somehow manage every year, if I'm taking distributions to either take it from mutual fund up markets or take it from cash or just put off taking it a little bit and work a part-time job, we can get through the first ten years, it's been my experience, it's almost been hard to screw it up, but the first ten years are critical. I always caution against this 4%. I'm just going to take 4% and not think about it, I'll be fine. That's the wrong conclusion to draw from those retirement calculations. When we are spending down our money, there's an order of spend-down that makes more sense generally speaking. Spend taxable money first, in our own name, pension, Social Security check, any part-time job, and any assets outside of retirement accounts. So I would actually start turning into cash a little mutual fund portfolio that I had in my name and putting the rest of my Thrift into stock if I knew that I was going to spend the investments in my own name before I was going to spend my Thrift.

After that spend-down is zero then we reach for the tax deferred accounts, traditional Thrift or traditional IRA and then after that we start spending Roth. And remember, with the Roth, the only real reason you're doing a Roth account is because it's going to earn tax-free treatment on all of its earnings. To spend Roth first means you either didn't understand that or you didn't care enough to leave it alone to grow. It gave you no advantage. So the Roth is the one that we spend last opinion it will be a little counter intuitive for you because you'll be -- you'll have opportunities for these big ticket items where you need to get your hands on a chunk of money. You've got accounts that look big but you hate paying the taxes on it. You've already paid the tax on this. If you spend money out of Roth, it's kind of a waste unless it's been in there for a couple decades.

Nick is asking, so you should maximize your Thrift before adding to a Roth IRA? I prefer that people take full advantage of tax deductions only available in traditional Thrift and then when they have extra money do IRAsand if eligible for an IRA contribution into a Roth IRA, you're on it. So nick, you got it.

All right. So let's talk about what we can do with our Thrift at retirement. We know that these are your choices. You can leave it there and when we leave it there we've got choices on how to get our money out or we can transfer to an IRA. I'm going to go through these one by one. If you leave the money with a Thrift, you're going to have limited choices on how to get your money. I'm going to go through all of them. And withdrawals are made on pro rata basis. If I made the point, buy low, sell high, doesn't mean watch it drop and spend your money anyway. With Thrift you would be spending money anyway, because they're going to take it out base on how you have it invested and they'll take it out equally from Thrift traditional and Thrift Roth.

There is a required minimum distribution at 70 and a half with both traditional and Roth thrift, but while you leave it there you can continue your inter-fund transfers. If you want to take money out of Thrift, you can ask for a monthly withdrawal. You got to let them know by December 15th and ask they either give you an amount based on IRS life expectancy or specific dollar amount. The nice thing is predictable and easy and they'll keep sending that as long as you have money in there.

If you want to make a change, you make it every -- notify them by December 15th.

As money comes out of Thrift Savings Plan, it's taxed as ordinary income if coming out of traditional Thrift, it's coming out tax free if it's coming out of the Roth. If you just want a single payment, you don't want money every month, either take the whole darn thing or a partial withdrawal. But a partial withdrawal can only be done once in your lifetime. That's a kind of a serious limitation. And, again, the taxation is the same.

Or you could ask the Thrift board to purchase an annuity. MetLife has the contract right now. What people like about annuities, they're guaranteed monthly income for life, so we eliminated the risk that you outlive your money. What we don't like about them is the irrevocable decision you've got to make, okay?

So it's an irrevocable decision to either start triggering the income, ordinary income, coming out of traditional tax-free, coming out of Roth.

So for a lot of people with the annuity, you'll think that the annuity might make sense for you if you're going to live a long time. You know, people in my family live a long time, I should do the annuity. I would never do the annuity, because the longer people live, it's been my experience, the more they see. They don't need the same little bit every month. It's the same amount every month. I don't know about you, I need more money the month I buy a car than I do 60 months either side of that. So we all I think can figure out if you did the annuity and died, whoops, you lost that bet. But doing the annuity and living a long time is equally if not more problematic, because costs are all going up.

You have got to figure out of every annuity payment to you, I have to set aside for home maintenance or set aside a little out of this to buy the car. You've got to pay the tax and it gets distributed and you're not using it until you go buy the car.

We know that there's this whole issue about transferring to IRAs.

It has some advantages and it has a little bit of a caution flag too. So you can remove all or part of it. You'll get way more investment choices and you'll get considerable more flexibility on distributions. If I had transferred all my money to a traditional IRA from traditional Thrift that was not a taxable event and as soon as it got there I could call my IRA custodian and say, I'd like you to wire $10,000 to my checking account. And they do it. If I really needed overnight it might cost me $20. If I don't need it that quickly, sometimes it's a service they provide for free and it might take as much as two or three business days. Then I can do it again the next day. If this was in the Thrift plan I could do that once in my lifetime. It wouldn't be wired. It definitely would take more than a few days, it would take a few weeks, and every once in a while they snag a little longer than that, but now I can only do that once. So the biggest advantage of the IRA is when I want the money, I can have the money provided I'm how old? 59 and a half.

If you're really thinking about spending Thrift money between 55 and 59 and a half and you have normal life expectancy, it's a huge red flag that we don't have enough money. Huge red flag, okay?

Just because I can spend money doesn't mean I should spend money. And if I'm spending out of my most valuable pocket as a young retiree, that's a bit of an indicator we're spending too soon.

The other thing I mentioned about the IRA is different investment choices. Somebody asked me the question about index versus managed funds. As my clients retire, sometimes I'm recommending they consider more managed funds than indexed funds because if we're going to do an indexed fund it's going to get the full market up and the full market down. Managed funds might not get all the up because they've got higher fees or because they didn't get in at the very bottom, but they also don't get the full market down. And that becomes a more critical consideration once you retire. Managed funds available in IRAsnot available in your Thrift.

And if we do this right, it's a non-taxable event. And the way to do it right is to understand this IRA vocabulary. There's a difference between rolling converting transferring and contributing money to IRAs. And if we want to get money into an IRA without any taxable event, we're going to transfer it. Technically I could roll it to an IRA but that means I took the money and they withheld money at about 20% in case I didn't complete the transaction in 60 days. So transfers and rollovers are not the same. Transfer means money is sent directly to my IRA custodian, custodian to custodian. Thrift board doesn't send me the check, they make it payable to my IRA custodian. Rollover is they sent me the check and taxes are withheld, even if I reinvested in the 60 days. So the problem is that some of these -- some of those Thrift savings plans are so big that it really is a lot of money being withheld and you don't get it back until you do your tax return and get a bit of a refund, and if that's more than 60 days out you've got to be careful where are we going to get this money or you've got an under-funded IRA. So in the real world we don't do rollovers. We only do transfers and they're not that hard to do. The lingo -- I got an email, somebody was -- we all get these emails. I got an email I think from fidelity today saying, you know, join us for our IRA rollover webinar or something, or education. I don't want to do rollovers. I only want to do transfers. It's a marketing term. I guess it sounds like fun.

So the other verb we needed to learn was conversion. When you're taking money from a tax deferred traditional kind of account and putting it into a Roth account, that's called a conversion. So don't think of that as a religious experience. It's not. But what happens is you end up having to pay the tax on it. So the -- we try to avoid conversions whenever -- whenever there's much of a tax to pay. I like doing conversions when there's no tax to pay, and that could be when there's -- the account is pretty new, just didn't grow, those sorts of things, but if I had a $50,000 deductible traditional IRA or $50,000 Thrift plan and converted it, look at all the tax we had to pay, right? I'm not interested in taking that giant step backwards, so we rarely recommend conversions into Roth when they trigger tax. We like conversions into Roth when they don't trigger tax. We like contributions into Roth, different verb, right? I know it's confusing and annoying, but it's tax law, so don't hate the messenger. We like contributions into Roths, but when converting, we slow down a little bit and make sure we don't have to pay a bunch of tax.

So we have a pile of questions. Let's get at these. 70 and a half, entire amount or monthly amount to fulfill it?

It's based on what tax law requires at that time and it's assuming that you're going to live according to some IRS table and you have a beneficiary who is ten years younger. So your life expectancy plus 10 really and the dollar amount goes up a little bit but it is a minimum distribution. In 2016 the required minimum distribution for a 70 and half-year-old is little under 3 and a half percent. Thrift, they're going to divide that into a monthly amount and send that to you unless you said you wanted more than your required distribution and then they'll give you that month and it will be divided monthly. In an IRA you've got more options. So you can say, I'm really not spending this money, I'm working part time in my 70s, getting a kick out of it or living comfortably on my pension and still don't need it, you've got to take the required minimum but we can let it stay for a full year and take out in December. Tax law it has to come out in the calendar year. It doesn't have to -- but from a Thrift plan it has to come out each month. From an IRA you just have to make sure you get it out within the calendar year.
We've got a question here not asking... if you had a military TSP paid out during a discharge and created a civilian TSP later, may I have a payout again upon retirement. The answer is absolutely yes. Payout, I'm not sure what that means. That's not a Thrift term and not a tax term. If it just means that you took all the money and paid all the tax on it, let's not do that again. Let's transfer it to an IRA. That's one of the verbs I can work with, because each of these -- payout is not a tax term and to the not a Thrift term. Distribution is a Thrift term. Transfer is a tax term. Yes, you can do it again, but I hope you don't, if it was a withdrawal.
TSP does not let you bury the amount you take out.
By vary -- do they -- they let you change up once a year how much you take out, but they don't let you take it from one fund or another. They'll take it prorated. If that's what you meant, I agree with Andy.
This is from Tina. If you have $100 extra a month cook would it be better to do 100 to catch up in thrift or 124 year mortgage?
$100 on mortgage may not make a difference depending on how big the mortgage. 100 in Thrift would save you 20 to 30 cents on tax for every $100 you did and start positioning that money for growth. All things being equal, I kind of like that one more, but you've got to look at it from -- I don't know you well enough to give you personal advice, but those are things I'd be thinking about. Good question.
I love the question that say if I only had a dollar, what do I do? It depends. Kathleen is asking, 66, can I earn more than $40,000 a year and collect Social Security, we answered that, and the answer is yes, if 66 is your full Social Security retirement age. If you have to be 66 in ten months you have to wait until 66 and ten months. If you live in a state without income tax how does that alter a decision to invest in a traditional Thrift or Roth Thrift, if you move to a state with income tax after retirement?
That's an interesting question, and I appreciate the thought you're putting into this, but the problem with trying to make a decision today and deferring a benefit that I would really get today for tomorrow that that's nuanced is that the tax laws could change or you might decide not to move. You're on to something. Tax-free is less valuable when I'm in a zero tax bracket, right? Or when I'm in a lower tax bracket because I've gone from a heavily taxed state, like a Maryland where I live to a state that doesn't have any income tax, like Alaska, right? But we're still going to be paying federal taxes no matter what and federal taxes are considerably more than state and local taxes combined. So

I'm not sure it changes the dial enough for me to really have the confidence to say, oh, yeah, we're on to something here, here is a strategy. Because I just don't know whether the tax laws are going to change or you're really going to move. Here is another one, just to put another twist on this an another reason why I kind of like people all other things being equal, to get deductions when they're available and easy to get. Because I got a lot of clients who are really old and some of them have gotten very frail. I call them with great affection my senior seniors, and when you're really frail and you need some care, that care is out of pocket and it's tax deductible. I've got some clients deducting $8,000 a month in care and some clients deducting $13,000 a month of care. Yeah, I know. It's huge. But it means they're kind of in a zero tax bracket, and I know they would hate to think that they gave up a deduction when it could have saved them 20, 30 cents on a dollar when they were making the contributions to find out they're not paying taxes now because they have these huge deductions later. They may not remember, right? If the frailty has to do with dementia, but you get my point. I'm not sure the difference in state tax would be enough to get me interested in it, but if you really know, this is where it's going to be and, you know, I'm going back to Alaska or I started my career and I couldn't wait to get back there, it's unlikely that Alaska is going to start charging income taxes immediately, but other states, they're toying with it, so just be... it's one of those, you need a crystal ball and when I don't have a crystal ball, I like a deduction in my hand.
Good question, though.
Steve is saying, can you ask -- transfer your Roth Thrift to a Roth IRA. Absolutely, and if you were going to move Roth Thrift, that's the only place you would want to move it. We answered Hal's question too.
So let's see. We're doing okay. If I'm going to give you one more break, let me get through this piece and then we'll -- it won't be long I'll give you a stand up and stretch. The real key whether you're going to be happy transferring to an IRA or not is getting to the right custodian. That's where the mischief can be. So you want to pick the right custodian and the right custodian is a financial institution. You can't be your own custodian, as much as you might want to be, and it's the custodian's job to report money in and money out. That's their job. You can imagine every financial institution is going to want to be your custodian but they're not all equal. They have different fees and investment opportunities, different services that they can offer you and then just practical considerations like, you know, I'm already very familiar with fidelity or my spouse is 401(k) is at Vanguard, so I understand how the system works, it will be practical for you to pick fidelity or Vanguard. It is true no matter where you move it you're going to pay higher fees, but it doesn't mean you have to pay deal breaker kind of fees. Your Thrift plan last year cost you .029% to be an investor. That's like free. If it increased tenfold to .2%, that's still really darn cheap. So I don't have to be paying somebody to manage my money at 1 or 2% a year. I certainly don't have to be letting somebody earn commissions to get the advantages of having a flexible IRA, but it's all going to be the -- the key is going to be in picking the right custodian.
So we've already done that. The other thing people want to hear about is the difference between IRAsand Thrift Savings Plan has to do with the penalties between 55 and 59 and a half. It's come up in a number of questions. If I want to take distribution from IRA with no penalty at any age, I can do that if it's for unreimbursed medical expenses up to

7 and a half percent of adjusted gross income. I can take it up for higher education expenses for myself or another person, up to limits, first-time home buyer, up to 10,000, me or somebody else, and certainly if I'm moving to another plan.
So with that kind -- and that's not the full list, but usually the difference in when you can take money out of an IRA versus a Thrift plan, that's not going to be the deal breaker. It's really you find the right IRA custodian at low cost and take on the responsibility of getting it there without being sold something. That's going to be the issue. If you're worried about being sold the wrong thing, you're just going to stay with the Thrift and learn how to be happy with those limited choices on investments and limited access to your own money.
Required minimum distributions came up in a question. It's 70 and 1/2, with the Thrift, Roth or traditional. IRAsrequired minimum distribution only apply to traditional. There are no required minimum distributions out of Roth IRAs.
And then if you're going to -- this came up in a question too. If you're going to look for advice, be sure you can articulate what it is you want. People give advice, not firms. So if you've got a great advisor, they move, you move with them. If you don't know if they're a great advisor, you need to step back and ask questions. I always send people to cfp.net to get good tools. Be prepared to ask, what qualifies you to give advice and how much does it cost? Money is coming out of your pocket and somebody should be able to explain exactly how much it costs more than just leaving it with a Thrift plan. That's a simple thing for somebody to explain to you. These are my fees for the Thrift plan and these are my fees if I go with somebody else. If I do it myself, I need to be able to figure out the fees myself and I'm just going to look at what kind of no load, no commission mutual funds am I going to pick at discount brokerage funds. Not banks, not insurance companies, not credit unions, not full-service firms like you know, Merrill Lynches and Morgan Stanleys. Do-it-yourselfers are picking your own investments and we keep our fees low as a consequence of that. Let me answer a couple questions and then let you stand up and stretch one more time for the day before we change copies.
Larry is asking, what do I think of USSA? It was the best insurance company for automobile insurance company and when somebody used to say to me, I've got term life insurance through USSA, I didn't need to see the policy, I knew they got a good price, and then everybody got in the investment world and USSA didn't have the best track record starting off. They definitely have improved. They've had a couple different CEOs and I've met people who are doing quite well at USSA and they don't always make my top 5 but certainly before I would say, oh, my gosh, don't do that, I would let me see how you're using them. You can get some pretty good generic advice from, you know, over the phone. They've got a little service for a nominal fee you might get a certified financial planner answering questions but it's not going to be real personal over the phone couple hundred bucks but it could be all you need to keep you out of a guessing game. I don't write them off completely but they have a couple of those funds out there that are just, you know, mediocre investments. And just holdovers from the early days when they were morphing from an insurance company to a brokerage firm
Daniel is asking, does it make sense at 59 and 1/2 to move Thrift money into an IRA with fixed growth or indexed or income funds and small amount in Thrift and contribute to retirement? I'm going to give that a qualified maybe. When I see that question come up in real life I almost always say no and it's because I don't meet a lot of people who

have full-time government jobs that have enough investment savvy experience and time to manage the money well in the IRA. So if you're not going to be your own money manager, then you're going to be paying somebody and now instead of it being the lowest most cost effective money you have, it's much more expensive.
If you are, though, managing money gracefully and easily on your own, adding more money to what you're already doing well does it take any more time, so I'd say that's why I gave it a qualified maybe. But honestly, twice in my entire career have I met that person, somebody who really -- maybe they studied this in undergrad or maybe it's a hobby of theirs, but they have a sizable portfolio outside of Thrift and chafing a little bit at the lack of choice in the Thrift. The Thrift has become quite big and they want better diversification. That makes sense. For the rest I want to wait until you have time to do this, and that's when you're retired or when you've had time to get a little bit more education on it than what you can get in your first webinar that has to be kind of generic. Mike is asking, I'm 40, my wife just start her career, tax rate is lower than when we retire. Is it still better to put money in Thrift funds than... there is no such thing as Thrift Roth IRA. So I think what the question here is, is it still better to put money in traditional TSP than to put it in Roth TSP, and if that's the question, Mike, I'm going to say depends on what your tax bracket really is. How much is it saving you right now? And if you have to pay more in taxes than what you would, is that going to keep you from being able to fully fund the Thrift? Sometimes I meet people putting money in Roth and if we put it in traditional we'd have more money to put in because it's saving money in taxes. So the way you figure that out, fire up the Turbo Tax a little bit and/or if somebody does your taxes for you, you show me how much it would cost or save if I changed my distribution from traditional to Roth or back and forth. So I think that makes sense.

I think I already answered Mike's question. And I... Steve is asking, can you transfer Thrift Roth to a Roth IRA, I think I answered that one too. I see questions are coming in, so why don't we take our last stand up and stretch and type in questions if you have them. And then with the remaining time I'm going to walk you through a little bit of estate planning and insurance 101. We're coming into the home stretch.
[break]

>> Welcome back, team. This is the home stretch here. So settle in. I'll try to get rid of some of the confusion for you. The tag line, the message on this. Mail was confused. So goes the question... I can't just take money out of Thrift when I need it or several times over my retirement, like a savings account? Absolutely not. That's clear. That's not confusing. It's just a rule, right?
Are my choices only to transfer it to an IRA or take monthly distributions? And basically that is it. You're either going to leave it with Thrift -- it's monthly distribution you can change every year, but that's basically the way these are. If you need more flexibility on distributions, right now you've got to -- seriously look at the pros and cons for you of moving the money to an IRA. If you can live with monthly distributions or you know yourself well enough to know, I could never navigate that path out there, I'm too easy --

I'm too uninformed, too easily sold things, I'm going to have to leave it with Thrift, then you have the monthly distributions.
So that's basically -- I don't think you're confused. I think you got it. If you want to transfer your Thrift to an IRA, when this done? Generally I tell people, because I don't want anybody to make a mistake, that we want to be thoughtful about this, slow down, retire, have a party, take a trip, clean out the garage. What's left? Oh, yeah, time to move -- time to study my options for transferring money out of Thrift into an IRA and then with that kind of time to make a thoughtful decision you're much more likely to make the right decision here. The urgency only shows up once we're over 70 and 1/2. If you're going to move the money, move it before the required monthly distributions are coming, but even somebody over 70 and 1/2, the Thrift or doesn't make the move at the end of the month even. So don't rush this. You need to be thoughtful. And some of you after research on this, you're going to decide, not me, I'm going to leave it with the Thrift plan and go with a more simplified life. Some of you you'll realize -- for some of you this is really easy stuff once you get into it and you'll be able to very successfully move your Thrift Savings Plan to an IRA.
Gary is saying he's still confused. Maxed out my $18,000 in Thrift traditional, but can contribute another 8,000 a year as catch-up. Is it better to put it into the traditional Thrift the Roth Thrift or Roth IRA? Well, do you want the deduction or not? The only one you get a deduction on all the choices you gave me was traditional, Thrift. And just to note you can't put $8,000 in a Roth IRA. So I think that one is off the table. You're back down to your contributions go to traditional Thrift or Roth Thrift, and if you understood the value of the deduction, is a value not just this year but for many years forward, how are you feeling about tax laws changing, is this all about you? Or are you saving money for your grand babies? That's how you're going to make your decision.
So somebody is asking me a question about a house in the Bay area, 17-year-old home is still under water, which just means that the mortgage is more than what it's worth, and it's an adjustable rate mortgage. Is it advised to try to refinance it to a fixed rate prior to retirement? Well... the only way we can refinance this is if we bring money to the table. So whether or not it makes sense to bring money to the table depends on all kinds of other things. I can't refinance a house for more than what it's worth. I probably can only refinance it for 80% of what it's worth, which means I got to bring the other money to the table. So what am I liquidating to make that happen or am I borrowing something from Great Aunt Sophie and hoping I get it paid back? I mean, really -- do I want people in fixed rate mortgages as opposed to adjustment rate mortgages going into retirement? Yeah. I didn't want them to have much mortgage. So certainly 100% mortgage on a Bay area house, that's not retirement time. So I don't know how close you are to retirement. I do know that interest rates are trending up. I do know that the economy is not so strong that I'm worried about them, you know, going up in the middle of the night when we all go, what the heck just happened here? But I would be careful about limiting my thinking on an underwater house to just those two options. Every once in a while when we have a house that is underwater, we look for special programs, we look for short sales and get into things that are a little bit easier for us to handle. So I don't know what I would tell a person to do, but you're asking a great question. Yeah, I'd love you to be at a fixed rate mortgage, I just don't know how you do that without spending a couple hours with you.

Is there a cost to move a mutual fund to an annuity not purchased through Thrift?
Okay. I would just love the know why you asked that question, Stan, but not knowing that, here is a couple comments. When I own money in a mutual fund, there might be a cost to sell it if I bought it through a salesperson and there's a back end surrender charge. The vast majority of mutual funds sold today do not have that, but it could be. That could be a cost. There's also the tax. If I bought it years ago with $5,000 and it's now worth $15,000, I'm going to pay some amount of tax on that $10,000 or however much it's grown and that I haven't already paid tax on. But then the part that is confusing to me is why would I buy an annuity? An annuity is an investment offered by an insurance company that can be turned into a stream of payments. Annuity by definition means stream of payments. Federal government employees already have the best annuities in the world. If I wanted to have what you're going to have if you've done, you know, even five to ten years of federal service under FERS, I need $1 million or so in an annuity because your pension has absolutely no risk. No risk. Remember, we almost went into a depression. Federal government employees got their pension checks on time with a cost of living allowance. So I don't find the annuity option in or outside a Thrift to be something that I reach for for federal government employees, certainly not outside of the Thrift plan. I wouldn't be buying a commercial annuity outside of Thrift for a federal government employee and once you do buy it, you have to know the fees are huge. The insurance world takes a fee every year. Investment world takes a fee. If they're variable investments, each subaccount is taking fees. I met someone not long ago who put $800,000 in tax deferred annual annuity that guaranteed when the market dropped his money wouldn't drop. That sounds nice and if he annuitizes, that gave him great peace of mind. When the market goes up, he only gets half what the market makes. Two years ago you made 30% in your C fund, he made 15. The annual fee the insurance company has taken out is 1.75. We're down to 13.25%. And each of the sub-accounts had another 1% coming out. So it was probably the most expensive investment I had seen all year. And it was a tax deferred variable annuity.
So ask the question but I didn't -- I'm not seeing an action item that I think has brought appeal, okay? I do see a lot of people wanting to buy these annuities, but federal government employees, you've already got the annuity. You need flexibility so when you need money you take money and spend it and you certainly don't want to be paying those fees. Got it?
All right. I'm seeing my list down...
I'm going to shift gears just a little bit, if I don't see another question -- she's getting questions here.
Let's talk about estate planning and the insurances and see if we can get through most of this topic before you all have to fade off and get into your weekend. If you don't -- if you've never done estate planning, the state you reside in did it for you, and I can assure you that there's no state that has ever put together laws that say, and if Karen Schaeffer dies without a will, we want to make sure that her estate settles with the least cost in the shortest period of time and that her favorite charities get money and best friends get some money and you know, the kids she likes more than the other kids get money. It's just not going to happen that way. So you want to be sure that you have at least the documents that you're supposed to have.

And so let's go through it. We're back on the documents again. The documents also require good conversation. It's kind of a waste of time if I teach you what documents you need, if you're not having any kind of conversation with people. It's up and down the family tree. We call it age appropriate conversation.

So if you've got adult children and it's perfectly appropriate for you to tell them you know, by the way, I've got estate planning documents done and you don't need to worry about things, I've been thoughtful, but I keep my originals here or there. That kind of thing.

If you've still got parents or aunts and uncles living, very appropriate to say, by the way, I took this financial planning class, have you done your documents because quite frankly it's your headache and heart ache if they don't. So you have age appropriate conversations as we go through.

So the documents that everybody is going to need, though, you've heard most of these. Everybody needs a will, a power of attorney, healthcare directive, and a living will. Those are not optional. The state you reside until might call that healthcare directive something else. In Maryland it's a healthcare directive. In Virginia it's a healthcare power of attorney. Let me go through them one by one, and I want you to know enough about trusts to know whether you're a candidate. A will simply a document that provides for the transfer of your stuff upon your death, and in that I get to make a lot of decisions about who should be in charge that is called the executor or personal representative, who is going to take care of my dependents, aging mother, might be my legal dependent, certainly minor children or special needs children like we had in one question, and it can also establish some trust. If I didn't have a will and I just died, everything would go to my husband, Rick, in some states. One-third of it would go to my husband Rick in some states and two-thirds to my kids. And they would get -- my children would get the money even if -- as long as they were 18, even if my husband needed the money and they didn't. So ill might want to set up some trust here so I leave everything to my husband but if he's not there in trust for the kids until thou have more experience. If you read my will, I've got money going into a trust from my mother-in-law, because if I left her money out right she would be thrown out of where she lived in a slightly subsidized for low income senior housing place in small town Michigan. All kinds of reasons to do these trusts. The person who had the question about the special -- the person who had the question about the special needs child would want the money left in a trust for the child so the child didn't get disqualified for means tested social programs like subsidized housing or SSI. So we have to be careful about that. But none of that will take effect until I die. My will, I can have it spelled out, if you read my will, oh, Karen wants this to happen and this is the people that should do different things in her will, but nobody has authority to do any of that until I die. And the odds are very strong I'm not dying suddenly. Less than 3% of us probably will. Rest of us, good news, bad news, we're on our way to getting older and older and sicker and sicker. We need a document called power of attorney for financial matters. I appoint an agent to act on my behalf to make my financial decision. The agent is supposed to act with my best interest in mind, and I can be very specific about what they can do or I can just say, you know, I'm just naming this person and they can do whatever they need to do. But financial institutions may have different requirements. And if I didn't have the power of attorney, the state is going to have to appoint somebody and when the state appoints somebody that is a legal process with fees, not flexible, it might not be what I want. It might be hard to get rid of if I in fact do recover. So what I tell people to do is you've got to have a will and you've got to have a power of attorney. These are not optional documents. No lawyer is going to let you out of the office without having both. Got it? Okay. Now the likelihood of being incapacitated actually is starting to increase, either because of advancing age, failing health or that great combination of both, I suggest we practice using the power of attorney. Anybody still working it's not you I'm worried about right now, it's your mom or dad or aunt or uncle. If you know they're expecting you to be able to handle their affairs and maybe mentioned, I've given you power of attorney, have you ever tried to use it? If mom is on her game, you haven't. So next time you're home for the holidays or visiting, maybe what you should do is go to the bank, leave mom comfortably in the car in the parking lot and you try to, with a power of attorney take some money out of an account or tell them not to roll the CD for another year. Most financial institutions will not do that without your mom's signature on their form, which is easy, because mom is sitting in the parking lot. Nightmare if you've just spent the weekend in ICU with mom and the social worker is saying, you need to -- she's going to be discharged tomorrow but you have to find an assisted living place and they need two months upfront and you have to get your hands on $8,000 and you can't. So understand the limitations of these powers of attorney. They're great documents, you got to have them, the IRS needs to see them, the Social Security OPM, they're all going to want to see a power of attorney if somebody has to act on your behalf. But heads up with these other financial institutions, maybe before you really need to just see if they have an ancillary form that needs to be signed. And if you understand the concept with -- might need to name somebody to handle my financial decisions, you can probably also understand the need for me to name somebody to make my healthcare decisions, right?

So I want the instructions. They're also called advanced directives, proxies, powers of attorney. It's basically the same concept. I would rather decide who will make the decisions than a judge who didn't know me.

There's a difference, though, between this living will and a healthcare power of attorney or healthcare proxy. Living will is just a declaration really that says what you really want when there's no hope. The power of attorney for healthcare is appointing somebody for all kinds of decisions. I mean, really think about it. We're having first spring weather on east coast in the Washington, D.C. area. We're kind of giddy with spring fever here and the cherry blossoms I've heard are going to bloom a little earlier. Some people that also means hay fever season. If I've been suffering from dementia and I'm now suffering from really bad hay fever, I can't make my own decision about whether it's time to go to the doctor and see if I need something more than my over-the-counter antihistamines. Somebody has to make that decision for me. But clearly having hay fever during cherry blossom season is not the pull the plug end of life kind of decision. So there are two different documents, and they're both necessary. Some states require even a third one that gets specific about do not resuscitate. So all of these documents are done according to state, not federal law and you need to know enough to make sure you're doing yours correctly.

Trusts are just a form of ownership. There's lots of reasons to have trusts. I could either -- depending on what I needed to do, but all trusts are either going to be living or testamentary. I either set it up while I'm alive and put money in it and let it function while I'm alive or I just have it take effect at my death. Trusts can be revocable or irrevocable, but I've got to be alive to revoke it. So all testamentary trusts are irrevocable. Who needs what?

Common purposes. The nice thing about a trust for some people is that if money is already in a trust and I die, the contents of that trust doesn't become a part of public record. Public record says there was a trust. But there's no public record that it was worth 50 cents or $50 million. And for some people that's critically important. Most of us you know, if you want to know what my house is worth the day I die, look it up, I don't care, but the bigger reason that you might -- I don't care. But the bigger reason is managing assets for someone. If I die and left my money to kids, they get the money the day they turn 18, and I'm working with a woman whose parents are alive but she did not win the lottery with these two, in and out of prison, a ward of the state since she emancipated herself at 16 but she doesn't know anything about money and she was -- I think she was bit by a dog or something. She had a fair amount of money coming to her at age 18 and the first thing she did was take her girlfriend and girlfriend's mother on an overseas trip and didn't have enough money for the first semester of college. And, you know, it's just like -- it's just such a nightmare that so could have been avoided if her parents hadn't abdicated their parental role and in some way a ward of the state could have a little adult supervision past 18 so that's what you're doing when putting money in a trust for a minor, you're protecting them from themselves and inexperience. By the time July came along and time for college, she didn't have any money and worried she was going to be homeless because she didn't have rent money either. It goes on.

So it's sad, and hopefully we'll get her on the right track, but we don't want to compound those kind of problems.

We also know we do tax planning with trusts. We do trusts -- if I die today and left everything to my husband Rick, there's no tax because he's a U.S. citizen but now he's got in one estate twice as much money and his -- that estate might be taxed at a higher bracket, so we always put language into if we think states are going to be taxable, either at the federal or the state level, we always put some language in there between husbands and wives. We can split things up in trust, still give access to the survivor but not get it to a higher tax bracket. Those are called bypass trusts if anybody has been through this before. Occasionally we have a trust that protect the assets from creditors. I can leave money to my children and it will say specifically they cannot use that money as collateral or credit. If they go bankrupt, creditors can't assume that money can be used. It can be protected there. And finally we also consider using trusts for charitable gifts. I could leave money in a trust until my youngest child or grandchild has had a college education or reached age 25, whichever comes first and if there's money left now it goes to my favorite charity, or the reverse. I leave money in a trust and income goes to charity until my youngest grandchild reaches 18 and then money gets split between eligible grandchildren for education. Either way, there's just lots and lots of ways that we can use trusts to our advantage, and most of these trusts, nothing happens other than you think it through and identify assets that you would want to go into it, but we don't need to put it together until we're actually -- somebody is probating our estate or settling our estate and that's the only time it needs to be in action. Pretty nice.

revocable living trust has advantages here. I can still control my property while I have the capacity to do it, but I'm deciding who is going to manage it if I do become incapacitated. So it's sort of like a trial run with the power of attorney, right? Only it works more often with the power of attorney because the power of attorney -- because the assets are already titled to the trust. So I am actually personally in the process of updating my estate plan and putting the house and investments and whatever else is going on into a revocable living trust. And my husband is successor trustee, if I'm alive but can't make my own decisions, our oldest girls are in charge if he can't make decisions. It's a huge gift that I'm actually giving them but it's also -- because not only will they be able to step up more easily than if they were trying to manage money and decisions with the power of attorney, it also means the estate settles easily. There will be no probate on anything that I've retitled to the trust. So I never think it's wrong to do revocable living trust, but they do cost a little more money than just getting wills done without the revocable trust and you have to retitle the assets, so there's more work involved. So it's not for everybody, but the two reasons we do them, we want to make sure we've decided who will our money. It's easy to manage money for incapacitated person in a revocable trust than it is with just a power of attorney and bonus points, we'll avoid probate. Probate is court supervision. If somebody dies, who is going to be the rightful her? You don't need probate joint titling or trust that says what happens when I die.

But you do need probate on assets just in your name or if we didn't think it through enough and the name beneficiary or the other tenant has not -- the joint tenant had not survived me. A lot of people bristle at it because it can take time and be expensive and creates a public record and it's a bunch of paperwork, some have been through this. It's not always that easy.

I've got a couple questions I want to answer before we do that next slide. Do I like legal zoom? I can tell you that my answer was, I don't know, I don't know much about it until these last couple of months and I've had two experiences with clients trying the do it themselves and it was really not a good experience. So I don't know if that's enough experience to cast dispersions on the whole idea and I do think some people might be able to make it work. It sounds like the right thing, but they assign you a lawyer and you don't get much information without paying upfront and in both of these cases the questions from the -- the clients were asking to see whether they needed to pay for the $300 or the 250 version really made no sense, and it was either indicating that the lawyer didn't know what the lawyer was doing or the client -- or didn't want to work with an uninformed client and educate them enough so they had the confidence they were doing the right thing. It just didn't work.

So in the past there used to be some place out in California, NOLO or something and they did a lot of legal documents and for clients who -- they like to read the fine print, they kind of get it, I was okay with them. Not my favorite. I like you to have a relationship with an attorney you can call and say, is this a game changer, somebody with tons of experience and good at what they do. But I wasn't totally against the do it yourself. I just found that a lot of people, once they start wading through that kind of legalese and they do have to be written precisely, they ended up wanting to go to an attorney anyway.

So that was Steve, that was sort of your question, what do you think of the do it yourself software kits? I think it might be a little easier to do the healthcare directives and living wills and do it yourselfer, but any time we're worried about trust for kids, really, you want to save a few hundred dollars and hope that works? I'm not sure I can get on board with that.

And Stan, follow up to a question on the Thrift. If the money coming out of Thrift is taxed prior to moving out to go to a mutual fund -- whoa, wait a minute here. We're not going to move money out of Thrift to go to mutual fund unless we're moving it to an IRA, traditional Thrift money would go to a traditional IRA and then you buy mutual funds and then it's not taxed. But if you just take money out of Thrift and go buy an investment, it's going to be taxed. So be careful about that.

We've got a question -- yeah, these are both Thrift questions. I contribute to Thrift not aware of two types. Is there detailed information on the website? Absolutely. TSP.gov spells it all out. I have a little in my slides and a little in the workbook for you but it all comes from TSP.gov. So that's the best place to go. But let me also just make a suggestion here that with -- whenever you talk about the Thrift Savings Plan, you probably should be on that website anyway. Once a month or so if somebody new happens at Thrift, it's usually for the better and it would be really nice if you were making it a habit maybe on Fridays before you go home to look at -- log on to the Thrift plan. I'm not saying log into your own account. I look at it pretty regularly. I just go to TSP.gov and right there on the home page as you open it up it will have something blinking at you or it will be scrolling something because something has changed, what is in the news, usually for your benefit.

Here is a question. Again about Thrift. I take half -- for example, what if I took half of my Thrift and transferred to an IRA, then I take a monthly withdrawal from Thrift for a number of years. At some point can I stop and withdraw the remainder of Thrift? And the answer is yes. Just because you can do that, for me to say, that's a great idea, I would have to understand why. Why are we doing that? Because if you're going to be able to successfully move half of your money to -- from Thrift to an IRA, that means you've already dodged the expensive inappropriate financial institutions or salespeople. I'm not sure there's an advantage to locking money into Thrift. There may be and if you have the stamina for it, that's great, but that's where I want your brain to go next. Why did I figure this out? What was it supposed to help me with? Make sure that it really does.

All right. So I was going to try and wrap this up, so -- I'm going to go through the rest of the slides.

The by-pass trust I mentioned already. There's going to be no tax actually unless your estate is over 5 million federally, but it depends on what state you live in. Not the state of confusion. I mean the state of the union. Whether there's a tax. And you want to look that up.

Having good documents, though, means that you have to also retitle assets and change beneficiaries, and that's then just -- the saddest stories that I've come across often in my financial planning are people who had already the right intentions, sat still, got the documents done but never retitled assets or beneficiaries. Another reason I like you working with a lawyer who will follow up with you. When should I will do an estate plan? I'm 36, have been beneficiaries for my money. Should I have one now or wait?

So the question isn't so much what would happen, Lisa, if you died. The question is, what would happen if you were in an auto accident or got the, you know, Zika virus, but there's a year or two where you're not capable of making decisions? Who is going to decide your standard of care and is it time to rebalance your Thrift plan? Who is going to work with OPM to make sure you do or don't go on disability retirement? Because you're not up to that. If you don't make those decisions for yourself, a judge who doesn't know you, doesn't know your family, doesn't know the crazy people in your family from the not-so-crazy people in your family, will make those decisions. So I think by the time you're 36 years old and have assets now in Thrift and maybe some IRAs, it's time. Settle down and get it done right. Good question.

Okay. We've talked about -- a little about the taxes and the probate. So I always give a little shout-out to charitable giving too. Americans are generous. We write a lot of checks. When you die, the checks stop. Yet you didn't need the money anymore, so it's nice to build that into estate planning documents.

I want to go through a couple of these other slides here and show you what I'm thinking about when it comes to insurance, life insurance and long-term care insurance, because it was one of your questions. But it's going to be our last topic. So thinking about questions, now is the time to get them in. Make sure insurance policies are in order. Homeowners, auto. Some of you are paying for insurance policies you don't need anymore. Some are woefully under-insured when it comes to just even your property, much less your life, and a 15-minute let me just stop and think about this would clear that up. When it comes to life insurance, it's not about you, it's about somebody else. Who might need it? Do you have financially dependent survivors? If you're single, survivors can take care of themselves, you don't need life insurance, right? Do you have financial goals beyond you? While alive did you plan to pay for kids' college education? Is there enough to pay that if you're gone? Are there debts that would adversely affect your heirs? A big mortgage on a house and survivor was planning to living on it or who would need to live in it, I think we want to make sure that we've made some provisions for paying off that mortgage.

And then we just look at, for how long would this go on, right?

Assess the needs of the loved ones, make up for the lost income. Go ahead and look at your cash flow again. If I died today and took my income with me, could my husband as a single parent and business owner without his partner meet payroll and pay all the bills and launch one more kid or do we need some life insurance? So it's really a cash flow exercise. You can use 4% spend-down again. If I died and left $1 million of retirement assets that I didn't have time to spend, boy, that's a bad plan, that means Rick could probably think about that's worth about $40,000 a year for 30 years and then he's out of money. And that would be 40,000 with some inflation protection, okay?

So let's just -- and I used to spend a lot of time doing an actual calculation. The thing is, the only insurance you're going to buy is term life insurance and it's so darn cheap that we don't need to do a lot of crunching. Couple hundred thousand, half a million, what do you need? Let's go get it.

Joanne probably talked through federal group life, it's a form of term life insurance. Basic amount is subsidized. The options are not. If you're at a stage of life where you need a lot of life insurance, we often send you into the marketplace and try to shop for a

policy of -- that would in fact pay a term life policy but the premiums are a little less. We know how basic life and optionals work.
And then the only other insurance we talk about is long-term care insurance. Don't think of that as nursing home insurance. Think of that is I don't want to go to a nursing home insurance. It's one of the first questions we had. I think you want the long term care insurance, but not if it means you're not going to fund your Thrift plan or pay off your credit cards or we're going to struggle paycheck to paycheck. Go to the website, the long-term care partners website. I had it on here. Go to OPM.gov and look for the long-term care partners website and they've got just a great website. It's the long-term care insurance offered through the federal government. It's not subsidized but it's a group policy and designed with federal government employee in mind, and just read about that a little bit and remember that the financial planner said I don't want you to have to go to a nursing home, okay? I don't want you to have to go to a nursing home and if you really need care it can get expensive, or we spend down your assets too quickly. We're seeing that a lot now. People are getting serious illnesses that used to kill people. They recovered but they spent all their Thrift money. They're hoping and hanging on. If you can afford the long-term care insurance it's time to get serious about that.
I see more questions coming in. She's editing them right now. So here is one from Andy. Other than the federal TSP and life insurance, what other forms require beneficiaries?
All of your retirement accounts have beneficiaries. If you ever bought an annuity, they had beneficiaries. IRAsThrift, 401(k) plans all have beneficiary designations. So, yeah, just make the list of things you own that have beneficiary designations and really know who you put. Lisa asks, does it automatically go to the spouse first? It depends on state law. I'm not sure what "it" is, but depending on state law and then assets like Thrift or retirement accounts, they'll say, we're following state law or we're following this, but really I live in the Washington, D.C. area and it's nuanced a little differently in Virginia, D.C. and Maryland. In one of those states, it's one-third to the spouse, the rest to the kids, if there are any. In one of those states, if there's no kids, some goes to parents, and in one of those it may go all to the spouse. So good to look it up.
James is asking, would you move Thrift to my irrevocable trust? I don't have an irrevocable trust. I have a revocable trust and I cannot move Thrift or my 401(k) plan into it, but I can once a die, everything I want to have happen will flow from this revocable living trust and I can word my beneficiary designation so it kind of merges into that. And I don't have to keep thinking about them as separate at my death. During my lifetime, though, somebody has to have a power of attorney to make decisions on my 401(k) and we can set that up while I'm healthy, I can contact my 401(k) custodian which will soon be an IRA custodian and transfer just like some will transfer Thrift and say I want this person to act for me if needed. And get a form and get it signed. I think I answered all three of those.
That was the last one in there.
So I'm not seeing the questions coming in and I'm seeing that it is a Friday, so let me just give you a quick little reminder of what you're supposed to be doing. I'll give you another minute to type here. Your job as a financial planner in the family was to know enough about your benefits that you listened to Joanne's class and you know the right questions to ask or you became an expert on that. You then took the personal side of

this seriously and you got together your goals, balance sheet, cash flow, and you update that annually and you think about some of the things we talked about. We talked about the taxation on different strategies with savings money. We talked about housing decisions. We talked about how dangerous debt can be. If you don't wean yourself from that habit, you're probably going to struggle through instead of really enjoy your golden years, right?

Take it upon yourself to go ahead and get that all organized an then just update it once a year when doing your taxes. So that's the key to a great retirement, is to have an understanding of the pieces of your personal financial plan when you have that, it's almost hard -- your common sense really works for you here. It's almost hard to screw that up. I see a couple questions coming in here. Let me answer these before I'm completely -- I was going to try to end a few minutes ago. Let me answer these questions here and we'll call it an afternoon.

You don't know how hard the people in the other room are working. It's a little stressful as you type questions they have to get cut and paste while I'm just sitting here waiting. But here we go. So I've been contributing to Thrift for 30 years, 10% G, 70% C, 20% F. If I prefer to monitor it less, should I swish 2040 fund as I'm planning to retire between years 21 -- 2021 and 2050.

I think if you really don't want to monitor it, an L fund is the way to go and the only thing that I'm going to remind you of is knowing when you retire doesn't help me guide you to, yeah, go ahead and use an L fund. It's when are you going to spend the money? So knowing that somebody is going to retire in 2020 doesn't tell me they're going to spend money 2020. That should help you decide is it 2040 or 2050. And leave it alone. Every year more in G and when you look at your plan, how much is in G and, oh, yeah, that's fine. I got a lot of G and I'm not going to spend the money and move it out. Eventually there will be a 2060 fund. Hopefully that helps you. Is there another one? I thought I saw two. Can you get long-term care insurance if you have a chronic disease and if so where do you go? The answer to that is maybe but you're on to something, Jodi, probably not. Depends on what the disease is. So what I'm going to suggest you do is go to the long-term care partner website. You can find it right off the OPM's home page. Just go to OPM.gov and look for long-term care partners. They're funded by the federal government. They're salaried employees and you can have a confidential informative conversation with them over the phone and just say, this is what I got. Is that a deal breaker?

And if they say, yeah, it's a deal breaker but you're married you might want to go research an independent insurance broker and say, are there any policies in the private sector that my husband and I could be qualified for joint underwriting? In the private sector husbands and wives can be underwritten as a team. If I went ahead and died, my policy pays the benefit I never spent for my husband. So if I had a five-year benefit he would now have a ten-year benefit.

So that's just not as involved in the federal government plan, and I understand that. It's not a -- long-term care is a good plan but I was always, always start with them. Mark woods is asking, are you familiar with term busters for term insurance? I'm not, but I will tell you that term insurance is the perfect product to be sold over the Internet because you're an asset to the company. They're going to look at your -- as long as they're operating legally in the state where they're registered, they've got enough money to pay the claims. They only sell insurance to people they don't think are dying. It's an insurance product, right? I'm more familiar with direct quote, but it sounds like the same thing. It's not a bad thing to at least explore or work with an independent insurance agent and just a, I just want level term insurance, none of this whole life conditioning variable life, we don't need investments out of this.

I'm assuming one more question. Jason. My Thrift has been out of the market since November 2012. And in G and F. I still have a substantial amount of money. Should I phase in bringing that or part of the money into CS and I? 2012 is an interesting time to get out of the market. We had already fallen apart and come back then, so you were anticipating it's got to be time to fall apart again. That's the problem with these all or nothing decisions. I do manage money for a living and at our office, it's much easier to decide when to sell than it is when to buy. Because if you're buying on a good buying day, that means what? The prices are low and everybody is pan icky. So just word to the wise, I can't give you specific advice because I don't know you and all the variables, but the things I would be looking at are when are you going to use this money and the suggestions, if it's really long-term money, just try not to make this a black or white decision. Go in slowly and take all the extra money sitting many the G fund and F fund and over the next year or two even start getting it back into the market. Along the way you might see, oh, my gosh, why am I taking so long, the market collapsed, this is a perfect day to put it all in. Probably won't be that obvious, but probably a better way to do it than to think about I've missed out and I want to make up for lost time. When people do that, I don't think they realize it's their fault, but that is when the market falls apart. People sit on the sidelines so long they can't stand it and they usually get in exactly the wrong time. If you choose to go back in the market, do it slowly.
Debbie is asking, doesn't Medicare pay for long-term care and assisted living? Absolutely not. If your Thrift plan works out. Medicaid will pay for nursing homes but not in assisted living facilities. If you've run out of money and you live in a state that doesn't have an income tax. So some states -- some of you would never be qualified for Medicaid because pension or pension plus Social Security checks are too big. In some states they look at assets regardless of income. Your income would pay the first cost, but they would pick up the balance. If you had already spent your money. But that's Medicaid, not Medicare. Medicare is health insurance. Medicaid assists the indigent. That's what it was designed for. You don't get to pick your nursing home and it's not assisted living and you might get a roommate who might be a screamer. So we hope you're never Medicaid dependent. Lisa is asking, a variation on this question before, when should one get long-term care insurance? My husband and I were told to wait until older. I'm 33 and he's 36. I don't mind waiting until you're older provided you promise you're never going to get a health issue and the money you would have been spending between now and when you buy it and the money you would have been spending you're building assets with it. If this is money that really is -- you wouldn't even -- because it's pretty cheap, you wouldn't know you pied the premium, it might not be a bad idea to buy it, but typically for people your age higher priority goals. Let's attend to the things that have the highest probability of happening that you want a bunch of money at retirement, so -- bunch of money at retirement, max of Thrift and IRAs and live within means and wean ourselves from debt. Okay, now you're showing

off, go buy long e-term care insurance. Last question, Lauren. For a revocable living trust, can the appointed manager make changes? There is no such thing as an appointed manager. The language in trusts are you're either the trustee, the grantor or the beneficiary and one person can be all three. In my revocable living trust, I am the grantor of the trust, I'm the one who had the money and set it up. I'm also the trustee, I'm calling all the shots. And hey, it's my money, my house, I'm living there and using my money. But if I'm not competent to make decisions, I have -- go down to page 20. If I can't or don't feel like managing this trust, then I want my husband Rick to and if he can't, then I want my oldest girls and they can pick whoever has got the time to do it, right? Can they make changes? No. They have to do what I said. Only the grantor, the person who set it up can do it, right? That's the person who can revoke it.

So if you're worried that somebody might make changes we've got the wrong trustee, right? We've got to have people with common sense and integrity who if they don't know what they're supposed to be doing, they hire people and get the answers they need. But that's the reason I'm doing this. I'm setting it up so it runs the way I want it to run and it prioritizes the things I want to prioritize.

So there's a question about taking clients. My purpose of being here today is to give you education. I would prefer that before anybody starts thinking about hiring a planner that you do the homework. Because before anybody goes out into the marketplace and says, can you help me, you really should have your goals, your balance sheet, cash flow in order and know that your insurance and safe plan is in order. So with that, then the questions bubble up and then you know whether or not you need to go out and hire somebody. You can go to CFP board's website and find all the certified financial planners and ask them those two questions, are you qualified to help me with what I want and how much will it cost?

So with that, I'm going to bring my remarks to a close. I see one last question popped in here because of current debt and mortgages. In case I...

So should I -- how should I -- because of all the personal mortgages and debt, I'm not understanding the question, should I -- should I make some changes to that? I really think Adriana, that's one of those questions that I can't answer without just let's have a cup of coffee, right? Take advice that I gave you today, the education that I gave you today and then about it and I think you're going to find as you go through the workbook and pull your thoughts together, some resources are going to be there and you'll be able to ask a more specific question that really gets to what you need. So thank you for participating, everybody. You've been great. The questions have been very interesting. Promise me you'll do a little homework to make the best use of this class and all that great information you learned from Joanne about your benefits. This is what you need to have a good retirement. So we're heading into a weekend, carve out a little time and make us proud and have a great career and then a fabulous retirement. Good luck to all of you. Thanks for participating.